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Follow-up to the International Conference on Financing for Development

Implementation of and follow-up to commitments and agreements made at the International Conference on Financing for Development

Report of the Secretary-General

Summary

The International Conference on Financing for Development, held in Monterrey, Mexico, from 18 to 22 March 2002, called on all stakeholders in the process to stay actively engaged and provided various opportunities for them to do so, the most important being the high-level dialogue on financing for development at the fifty-eighth session of the General Assembly. In support of that dialogue, the present report highlights the most significant areas of progress or lack thereof in implementing the policy actions agreed upon in Monterrey. In some cases, it suggests guidelines for policies and processes and identifies issues for further reflection in order to fully operationalize and build on the Monterrey Consensus of the International Conference on Financing for Development (specific recommendations are highlighted in bold type), which Member States may wish to consider in order to enrich and make full use of the opportunities provided by the Conference follow-up process.

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I. Introduction

1. The International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, marked the beginning of a new international approach to dealing with issues of development finance. It resulted from a unique process that broke new ground in bringing together all relevant stakeholders in a manner that was unprecedented in inclusiveness. Under the umbrella of the United Nations, all parties involved in the financing for development process contributed to creating a policy framework, the Monterrey Consensus of the International Conference on Financing for Development, to guide their respective future efforts to deal with issues of financing development at the national, regional, international and systemic levels.

2. The present report aims to facilitate discussion of the implementation of the policy actions agreed upon in the Monterrey Consensus at the first high-level dialogue on financing for development. In order to maintain a comprehensive approach, as requested by the General Assembly, the report follows the structure of the Monterrey Consensus and focuses on two interrelated themes, "Leading actions" and "Staying engaged".

3. The report draws widely on inputs received from the major institutional stakeholders in the financing for development process and has been prepared in close consultation and collaboration with them. However, not all of the ideas put forward necessarily represent the views of every one of the entities consulted and responsibility for the contents of the report rests solely with the United Nations. Detailed information on the multifaceted activities carried out by stakeholders in the follow-up to the Conference is posted and updated regularly on the financing for development web site at www.un.org/esa/ffd.

II. Mobilizing domestic financial resources for development

4. The Monterrey Consensus explicitly recognizes that each country has primary responsibility for its own economic and social development, that the role of national policies and development strategies cannot be overemphasized, that national development efforts need to be supported by an enabling international economic environment, and that peace and security are essential for sustainable development.

5. Most of the policy actions and measures agreed in the Monterrey Consensus are of a long-term nature and involve: building new institutions or strengthening existing ones, structural policies, human resource development, and measures to enhance the environment for private and local initiatives and to ensure that the benefits of economic growth reach all people. While in most countries positive steps have been taken in the direction agreed in the Consensus, in a number of countries insufficient political will or special interests in a position to exert influence have prevented or slowed down the required reforms.

6. The timing and sequencing of required actions are largely influenced by current conditions. In several countries, natural disasters, the outbreak of a serious disease, pervasive social unrest, or the continuation or intensification of armed conflict — as in parts of sub-Saharan Africa — have made concentration on long-term concerns more difficult. Also, for many countries the international environment has been less supportive than expected, so that a great deal of attention has been

diverted to short-term policies or to policies designed to cope with a more uncertain global economic outlook.

7. The difficult interface with the international environment is illustrated in table 1, which shows the net transfer of financial resources for groups of countries. When the net transfer is negative, it means net financial outflows, i.e., countries are exporting more goods and services than they are importing, and are transferring the excess abroad in financial payments of one form or another (debt servicing, profit remittances, foreign reserve accumulation, such as by purchasing key currency government securities, capital outflows or withdrawal of foreign investors). It also means that gross domestic investment is less than total savings in the economy since the transferred resources are not domestically available. As table 1 shows, the net transfer has been negative for each major group of developing countries for the last several years. In 2002, the negative net transfer reached almost double the average annual levels of 1998-2000.

Table 1
Net transfer of financial resources to developing economies and economies in transition, 1994-2002

Billions of United States dollars	*Average 1994-1997*	*Average 1998-2000*	*2001*	*2002[a]*
Developing economies	30.4	-111.3	-155.1	-192.5
Africa	3.1	-0.6	-11.2	-9.0
Eastern and Southern Asia	4.6	-125.1	-111.0	-141.5
Western Asia	14.2	-4.2	-34.0	-13.2
Latin America and the Caribbean	10.8	17.3	2.0	-28.8
Economies in transition	14.5	4.9	-9.7	-9.5
Memorandum item:				
Heavily indebted poor countries	10.6	10.0	8.2	10.3

Source: *World Economic and Social Survey 2003* (United Nation publication, Sales No. E.03.II.C.1).

[a] Preliminary estimate.

8. Current international economic conditions and prevailing uncertainties partly derive from an extended period of sluggishness in most of the industrialized countries and the spectre of deflation in some of them, volatility in capital markets and exchange rates, large and increasing imbalances in the United States economy, and fluctuations in oil prices. They are also partly a result of investors' hesitancy on account of non-economic factors: terrorist actions or threats, the potential spread of serious diseases and the evolution of the situation in areas of particular tension, such as Iraq and the Middle East.

9. As will be seen in section III below, net private financial flows to a significant number of developing countries have declined or turned negative. Given prevailing uncertainties, an early turnaround in those flows is not assured. The struggle of non-oil commodity exporters, mainly low-income countries, to cope with low commodity prices has not abated. Countries dependent on tourism, particularly small island developing countries, have suffered enormous losses. Although there

have been positive developments in some areas, it is unclear when the flow of tourists will fully recover. In sum, the landscape is significantly different from the one generally envisaged at the adoption of the Monterrey Consensus, which largely explains why the policies in many countries have been geared to reducing vulnerability. But in spite of the difficult international environment, policy reform has yielded some payoffs in terms of macroeconomic stability and economic growth in some countries and has reduced vulnerability in many, which demonstrates that such policy reforms are important and warrant continued and additional support from the international community.

10. The commitments contained in the Monterrey Consensus regarding national efforts to enhance resource mobilization cover four major areas: strengthening governance and participation; implementing sound macroeconomic policies; enhancing infrastructure, social services and social protection; and developing and strengthening the domestic financial system. A joint national and international effort to enhance capacity-building in order to strengthen institutions, improve policy formulation and increase the effectiveness of policies and measures in those four areas is also a key commitment of the Monterrey Consensus.

Strengthening governance and enhancing democratic and participatory decision-making

11. A considerable number of developing and transition economies in all regions have intensified efforts in strengthening governance through the development of participatory decision-making processes that are inclusive of civil society and the private sector as well as local communities. Many have introduced decentralized governance as part of their efforts to broaden participation and involvement in policy formulation and control. They have also worked towards reforming the public service, strengthening its capacities, building greater accountability and transparency in public administration, and implementing anti-corruption practices. The establishment of an effective, transparent and accountable public expenditure management system is essential for the effective use of public resources. Some progress, with support from the Bretton Woods institutions and the United Nations, has taken place in this area in recent years, but additional efforts are required. In addition, countries have put substantial effort into creating institutions that are conducive to private-sector activities, including developing effective and appropriate regulatory systems and investment protection and strengthening the rule of law. At the same time, in some countries strengthening governance has been made more difficult by the persistence of civil strife or military conflict.

12. In several countries, independent bodies have been set up to look at possible corruption cases, recommend preventive measures and formulate strategies for mainstreaming ethics and integrity in both the public and private sectors. Also, a number of developing countries have adopted or are considering measures that regulate access to sources and use of funds for political parties and ban the use of illicit funds. Many countries are also advocating that legislation be adopted to facilitate the repatriation of the proceeds of corruption.

13. Within the New Partnership for Africa's Development (NEPAD), a steering committee has been developing proposals for standards in governance, while a regional mechanism — the African Peer Review Mechanism — has been established to promote adoption of the standards and monitoring of country performance. The

Pan African Conference of Ministers organized under NEPAD has adopted a governance and public administration programme for 2003-2005, targeting the strengthening of governance, public administration and leadership capacities as measures for centralizing development.

14. At the global level, the Ad Hoc Committee on the Negotiation of a United Nations Convention against Corruption has been developing a broad and comprehensive international legal instrument that seeks to criminalize corrupt acts in all stages and sectors and that will monitor its implementation at the national level. The negotiations are to be completed by the end of 2003 with a view to adopting the instrument in December. The draft convention attempts to define key terms, such as "corruption" and "public official", covers both the public and the private sectors and addresses the need for measures ranging from prevention to enforcement, including assets recovery.

Implementing sound and coherent macroeconomic policies

15. There is growing evidence in recent decades that "pro-cyclical" macroeconomic management (i.e., imprudent fiscal, monetary and credit expansion during a boom, followed by substantial fiscal and monetary contraction after a downturn) has had serious adverse effects in many developing countries. There is also a growing consciousness of the need for counter-cyclical policies and gradually a significant number of countries have taken action in that direction. But more work is needed to formulate counter-cyclical macroeconomic policies that can promote stability in all phases of the business cycle and to adopt such policies as the framework for international financial cooperation. Several countries have adopted floating — but partially managed — exchange rate regimes to gain policy flexibility as there has been a broad move away from the view that only extreme exchange rate regimes can work. Still, in those cases it is important to be vigilant during periods of strong economic growth and large capital inflows to guard against substantial currency appreciation and expansionary fiscal, monetary and credit policies that could result in increased vulnerability of the economy in a downturn.

16. On the whole, in a global environment of slow growth and low inflation, monetary policies have remained cautiously accommodative or expansionary and interest rates have been lowered in some countries to limit currency appreciation, except in some large Latin American countries, where monetary policies have been restrictive to counter inflationary pressures from currency depreciation.

17. Prudent fiscal management generally has prevailed in developing and transition economies and improvements in their fiscal systems have continued. After the widespread economic downturn in 2001 and part of 2002, the weakness or strength of the fiscal position was key to the ability of Governments to implement counter-cyclical macroeconomic policies in 2002-2003. Countries with a high level of public debt and large debt-service burdens, which face a difficult financing environment, have had to embark on fiscal consolidation to address debt sustainability, intensifying the cyclical downturn, while countries with strong fiscal positions have been able to implement expansionary monetary and fiscal policies to counter the downturn.

18. Policies to strengthen tax systems have been implemented by many developing and transition economies as part of fiscal consolidation, including simplified and more transparent tax codes, broadening of the tax base, strengthening tax

administration and supervision to increase accountability and eliminate corruption in order to improve tax compliance and reduce tax evasion. Progress in those reforms has varied among countries; political resistance, weak governance and limited administrative capacity have hindered successful implementation in a number of cases.

19. In countries that are highly dependent on rich natural resource endowments, the sensitivity of fiscal receipts to volatility in commodity prices highlights the important opportunity that reserve funds provide to smooth large swings in public revenues. Efforts have begun in a few countries to improve accountability and transparency in public management of receipts from the exploitation of natural resource endowments, which can help to preserve and exploit more fully those major sources of revenues for financing development and poverty reduction. Implementation on a much wider scale, with emphasis on a strong governance regime for the management of reserve funds, is needed.

20. Developing and transition economies are increasingly adopting or improving medium-term fiscal frameworks in their efforts to strengthen the budget process and improve fiscal accountability and transparency while addressing the issue of fiscal sustainability. In middle-income countries, the setting of medium-term fiscal targets has allowed more stable delivery of public goods and services and facilitated counter-cyclical fiscal policies. Those low-income countries that have effectively formulated and implemented medium-term fiscal frameworks as part of adjustment programmes, including poverty reduction strategies agreed with the International Monetary Fund (IMF) and the World Bank, have been able to clarify fiscal targets and strengthen the alignment of the budget with nationally formulated poverty reduction strategies. The participatory process, drawing in civil society and the private sector, has allowed the strategies to be more widely debated and has enhanced country ownership. In addition, the international community is increasing support for relevant capacity-building, as in the five African regional technical assistance centres being established by IMF. Further international support is needed, however, to help broaden implementation and enhance effectiveness and country ownership, including through better alignment of international assistance with national objectives and projected resources. Moreover, broad-based domestic political support needs to be built to ensure that the principal medium-term objectives and programmes are sustained over the longer-term framework.

21. Medium-term fiscal frameworks have been used in a number of countries with economies in transition to implement fiscal adjustment. Results have varied greatly among countries, with notable success in a number of countries of the Commonwealth of Independent States. Currently, budgets in Central European countries are moving in the direction of fiscal consolidation but there is still a need to establish medium-term fiscal strategies in order to meet the strict Maastricht fiscal requirements.

22. In sum, considerable improvements in macroeconomic policies were achieved in a large number of developing countries and transition economies in the latter half of the 1990s and in 2000-2001, and that trend has continued in 2002-2003. Still, more room for counter-cyclical action — preventive policies during boom periods and recovery policies during crises — is critical in developing and transition economies.

23. **During periods of economic stability, particularly in periods of rapid growth, countries should make a special effort to undertake reforms that reduce vulnerability to volatility in financial and commodity markets and to episodes of slow growth or recession. Such reforms should enhance public debt sustainability and allow more leeway for counter-cyclical policies. Especially important are the formulation of medium-term fiscal frameworks and the pursuit of structural fiscal balance, as well as considering the establishment of well-managed reserve funds and the development and expanded scope of social safety nets.**

Enhancing basic economic and social infrastructure, social services, labour markets and social protection

24. Investments in education, health and nutrition are critical for enabling people, especially those living in poverty, not only to have a decent life but also to adapt to and benefit from changing economic conditions and opportunities. These areas also constitute the focus of the Millennium Development Goals and are crucial elements of poverty reduction strategies. Indeed, in the large majority of countries that have reached the decision point under the Heavily Indebted Poor Countries (HIPC) Initiative, social expenditures by the Government increased substantially in 2002. At the same time, many developing and transition economy countries have recognized the need for well-developed public expenditure management systems in order to scale up expenditure in social services and the provision of social protection. They have also acknowledged the need to increase the efficiency and effectiveness of social expenditure and service delivery.

25. The trend towards an increasing focus on education in the large majority of developing countries has continued. Increasing enrolment in the primary and secondary education of boys and girls in 2002 has been backed by growing public expenditures and in many countries by increasing private expenditures as well. Despite that progress, in several countries of Asia, Africa and the Middle East the gender gap remains wide in primary school enrolment, particularly in secondary school enrolment, and much stronger efforts are needed if the gap is to be closed within the time period of the United Nations Millennium Declaration.

26. Governments have recognized that an important way to enhance the delivery of education services is to improve the efficiency of the resources provided. Increasingly, many countries are introducing expanded choice, promoting custom-driven delivery and enhancing client participation in decision-making. Privatization and users' fees — which for a while in some quarters were thought to have the potential to make a major contribution to enhance efficiency and alleviate fiscal problems — have yielded mixed results and therefore are not being pursued as intensely as in previous years. In some countries, the introduction of users' fees in primary education has led to a substantial drop in enrolment.

27. Often, bilateral and multilateral financial resources have supported the efforts of developing and transition economies to provide growing resources for education, including educational reforms. A considerable number of countries have increased taxes or diverted public resources away from other uses towards education. In many countries where the relative size of the public sector is shrinking or government expenditures are falling because of macroeconomic adjustment, a special effort has been deployed not to affect adversely educational programmes.

28. A substantial number of developing and transition economies have experimented with novel approaches to mobilize additional resources, improve the quality of education and reduce the number of dropouts. Those new measures often involve public/private partnerships, the increased participation of communities and local and civil society organizations in educational tasks, and — in order to increase attendance in low-income neighbourhoods or rural areas and avoid dropouts — special government-funded programmes for the students or their families. Scattered evidence indicates that decentralization and increased participation of local groups and communities in the design of programmes and their implementation have improved the efficacy and efficiency of programmes in a substantial number of countries.

29. Several of the considerations noted above also apply to health issues, namely, public finance-related concerns, the quality and reach of delivery of health services, decentralized decision-making and the contribution of the private sector, local authorities, communities and civil society organizations to health-related tasks. In most countries, progress is being made in some of those areas; in some of them, progress is being made in all of those areas. Several developing countries have recently tried new approaches to decentralization, such as increasing the involvement of the local community in the management of clinics and the delivery of generic drugs. But the coverage of basic health services in a large number of countries remains alarmingly insufficient, particularly in rural areas. Moreover, in many countries prevention efforts have not been accorded the priority they deserve, suggesting that a redirection of efforts and resources is still necessary.

30. The special situation of several developing countries with a high incidence of HIV/AIDS is particularly troublesome. Such countries must confront not only large increases in health expenditures and an increased population of dependants that must be cared for but also a debilitating reduction in the workforce since the pandemic is affecting mostly the working-age population. The magnitude of that problem, particularly in a number of sub-Saharan countries, is such that international support for national efforts is critical to deal with the pandemic and its social and economic consequences.

31. Together with investment in education and health, investment in basic infrastructure for transport and communication is essential to a conducive domestic environment for sustained development. Enhancing transport infrastructure, in particular the road network, and improving communications are key to advancing national integration, fostering growth and diversification of the rural economy, increasing mobility, promoting investment and facilitating the delivery of social services. While in the past in developing countries and countries with economies in transition the mobilization and ownership of resources for those purposes lay overwhelmingly with the government, in an increasing number of those countries the private sector is playing a role in financing, managing and often — through privatization — owning the related physical assets. In many cases, that has enlarged the resources available for that type of investment, and in the area of telecommunications it has often expanded the reach substantially and increased efficiency. In some cases, however, it has led to less access to services by some (mostly low-income) segments of the population.

32. In health, education and other social services, effective access to information is the first step in securing delivery: information is a key factor that engages and empowers the people to obtain services. Feedback from the people is an important instrument to improve or reform the organization and delivery of services so that they respond to actual needs and are delivered in a more cost-effective manner.

33. **Developing countries and countries with economies in transition should develop multiple channels to support the financing of education, health and infrastructure, including both public and private sources, local and community efforts, civic organizations, bilateral donors and multilateral institutions. Governments should undertake additional efforts to widen the tax base and to improve tax collection in order to ensure adequate revenue levels for public expenditures. They should enhance tax collection and curtail tax evasion through more effective tax administration, and should reduce tax avoidance through appropriate laws and procedures. On the expenditure side, Governments should work towards establishing a well-developed public expenditure management system in which budget formulation should increase the transparency of resources allocated to infrastructure and social expenditures. Special attention should be paid to distinguishing between capital and current expenditures, with the latter fully covering maintenance and repair costs of physical assets, such as roads, hospitals and schools. Impact assessments of social expenditures, particularly involving feedback from beneficiaries, should be increasingly incorporated in fiscal budget discussions**.

34. The Monterrey Consensus underlines the importance of active labour-market policies, safety nets and the need to increase the coverage and scope of social protection. There is increasing evidence that the most critical factor in growth policies that support poverty reduction is how they affect employment levels and underemployment in the long run.

35. Unemployment worldwide increased by close to 20 million in 2002 according to the International Labour Organization. The increase affected predominantly women, since they tend to work in sectors more vulnerable to economic weakness or shocks. Youth were also especially affected and more people were pushed into informal employment. In developed countries, developing countries and countries with economies in transition, unemployment of youth (15-24 years old) remains particularly severe, with rates hovering in the 10-15 per cent range in most of them. In several Latin American countries, such rates exceed 20 per cent.

36. The main global challenge is twofold: first, widespread economic growth is essential, with a sustained rate of increase in gross domestic product sufficiently high to lower rates of unemployment and underemployment; and second, continued efforts are needed to address medium to long-term causes of unemployment, including lack of labour mobility and undiversified economic production. Also, increased worker training is key to greater economic growth with equity. In most countries, it is crucial to dismantle barriers that prevent the access of women to work opportunities on an equal footing with men and to eliminate the gender wage gap.

37. **The Monterrey Consensus recognizes the need to pursue sound macroeconomic policies aimed at sustaining high rates of economic growth, full employment, poverty eradication, price stability and sustainable fiscal and external balances to ensure that the benefits of growth reach all people,**

especially the poor. Thus, even in situations when macroeconomic adjustment is required and economic stabilization and employment growth are conflicting goals, attention should be paid to the impact of fiscal and monetary policies on employment. Adjustment support from the international financial institutions to developing countries and countries with economies in transition should seek to minimize the adverse effects on employment of men and women. Similarly, broad economic reforms and structural adjustment programmes should consider as a priority the maximization of employment opportunities for men and women in the medium and long terms. Additional efforts to enhance training schemes in the public and private sectors or in partnership between them should be deployed to increase worker productivity and real wages.

38. A widespread concern in developing countries and countries with economies in transition is the protection of workers — including workers in the informal sector — during periods of unemployment or after retirement. Approaches in this area differ widely.

39. Many middle-income developing countries and countries with economies in transition are seeking to expand, create or reform social protection schemes for the unemployed. The key challenges are appropriate financing and the broadest possible coverage of those schemes. While financing in the formal sector often derives from established funds, with contributions from both workers and private employers, the responsibility of government still looms large: filling the gap for others who need protection from the full cost of unemployment or a minimum income. However, the budgetary impact of those social protection schemes tends to be heaviest in periods of economic stress, precisely when fiscal conditions are tighter.

40. Minimum income schemes or safety nets are also an increasing concern in low-income countries, where a large number of workers are in the rural and urban informal sector. Given their more limited possibilities to raise public resources and the lack of administrative capacities to implement a comprehensive minimum income plan, those countries are strengthening efforts to establish or strengthen safety nets in collaboration with civil society organizations, business, local groups and bilateral and multilateral donors. Nevertheless, those initiatives remain constrained by the scarcity of funds and reach only a small fraction of the target population.

41. Efforts are also under way to increase the coverage of, enhance or reform pension systems, as in many countries with economies in transition. In several developing countries and countries with economies in transition, new approaches are being considered, including a larger role for the private management of pension funds.

Strengthening and developing the domestic financial system

42. A sound system of financial intermediation with an effective regulatory framework is indispensable for long-term growth and for short and medium-term macroeconomic stability, as highlighted by recent emerging market crises. Building diverse and strong domestic financial markets remains the priority for developing and transition economies. That strategy should aim to increase long-term financing, primarily based on financial instruments denominated in domestic currency. A high degree of dollarization (or euroization) of the financial system can make banking systems more vulnerable to deposit runs when the domestic currency comes under

pressure and accentuates currency mismatch. At the same time, financial sector development should strive to eliminate the segmentation of financial markets by facilitating the access of small and medium-sized enterprises to financing.

43. The performance of the banking sector in developing and transition economies in the last two years has been mixed. There have been expeditious restructuring and modernization in European transition economies and gradual but uneven improvements in Asia. Yet financial soundness indicators have weakened in a number of countries, especially in Latin America. Financial distress also persists in many African countries. Access to credit for women and the poor remains considerably restricted. Therefore, major efforts are still needed in many countries to reduce the vulnerability of private and public banks and provide non-discriminatory access to credit.

44. Domestic bond markets in some developing countries have substantially expanded in recent years. Local bond markets have become the dominant source of credit for the public sector in most regions, and corporate bond issuance has grown by a factor of 10 from an annual average of about $11 billion in 1997-1999 to over $100 billion by 2002. The growth of domestic pension funds has made a particularly important contribution to the development of securities markets in Latin America and Central Europe and their role is beginning to be felt in Asia. However, debt in most local markets is still concentrated in shorter maturities.

45. Many developing countries, particularly in Latin America, have developed their government bond markets in part by issuing dollar-denominated or dollar-linked debt. While providing a foreign currency hedge for investors, such debt can lead to financial instability if the excessive use of that instrument results in unsustainable debt levels and currency mismatch. In Asia, developing local bond markets has become an explicit policy, and both the Asia-Pacific Economic Cooperation Organization and the Association of Southeast Asian Nations (ASEAN) plus China, Japan and the Republic of Korea (ASEAN+3 countries) are actively involved in that work. Nevertheless, securities markets in many developing countries are not very liquid, making integration desirable.

46. In comparison with the growth of bond markets, domestic equity issuance fell sharply, owing to general economic weakness, combined with a shift towards fixed income investments by institutional investors, notably United States and European pension funds, that could be structural. In Asia, domestic equity issuance still continues to be the second largest source of corporate funding after bank lending but only slightly exceeding corporate bond issuance. In Central Europe, privatizations also made equity issuance the second largest source of funding, while domestic corporate bond issuance remains limited. But stock markets in economies in transition have become illiquid and companies began delisting once the temporary boost from privatization ended.

47. The viability of stock exchanges in small developing and transition economies is being increasingly challenged. Paradoxically, many stock exchanges that have adopted the best international practices and developed their infrastructure have experienced outward migration of firms in capital raising, listing and trading activities. Under those circumstances, small countries are finding it beneficial to have their local trading systems linked or merged with global markets. The introduction of electronic trading is furthering such links and eventual mergers.

48. The improvements in financial soundness indicators across European countries with economies in transition and slower but generally steady progress in Asia were the direct outcome of consistent improvements in banking sector regulation and reform implementation. Enhanced macroeconomic management in developing countries is also having beneficial effects on the financial sector. Sound public finances, prudent monetary policies and the development of public debt in the form of negotiable securities are facilitating the emergence of longer-term financial markets.

49. Many developing and transition economies have made great strides in other policies aimed at fostering financial development. As part of the preparatory process of accession to the European Union (EU), some countries with economies in transition have harmonized within a short span of time most of their legal framework with international standards. The level of shareholder protection in advanced transition economies is currently equal to or even higher than that in some industrialized countries. A number of developing and transition economies have recently strengthened their laws governing capital markets. Others have adopted codes of best practices designed to improve disclosure, protect minority shareholders' rights and maximize shareholder value.

50. A strategy of the international community to help developing and transition economies to strengthen their financial sectors has been to encourage them to draw on the financial sector assessment programme of the Bretton Woods institutions and to observe a core set of international standards and codes (banking and insurance supervision, securities regulation, payments systems, corporate governance, accounting, auditing and insolvency regimes, and creditor rights). The observance of such standards and codes can facilitate improved macroeconomic management, access to capital markets and better evaluation of risk. But because they are mostly based on practices in developed countries, questions have been raised about their compatibility with implementation capacities in countries at very different levels of development. As agreed in the Monterrey Consensus, it is important to ensure the adequate participation of developing countries in designing the standards that will apply to them.

51. It is also important that developing and transition economies be able to adequately assess and act on the advice embodied in financial sector assessment programmes and reviews of standards and codes, for example, to ensure that the policy measures that they take accord well with national development priorities. Many bilateral aid agencies and multilateral institutions have sought to help developing and transition economies in financial sector development, with different assistance entities focusing on different aspects of the overall subject, ranging from microfinance to capital-market development. There has been some dialogue among donor agencies to increase the effectiveness and coherence of their assistance, but also an increasing recognition that more dialogue and assistance are needed. One response is the new Financial Sector Reform and Strengthening Initiative (FIRST), which involves the World Bank, IMF and five major donor countries. It envisages being both a quick-acting arranger and a forum for cooperation and dialogue on technical assistance in this area. Financial sector sustainability is also one of the areas of focus of the African regional technical assistance centres (see para. 20 above).

52. **Developing and transition economies should increase their efforts to deepen the financial system, which entails further strengthening the prudential regulation and supervision of their banking systems and an orderly development of their financial sector through appropriately sequenced measures to build the necessary institutional arrangements of capital markets, insurance and pension sectors. Special attention should be paid to risks that can arise from foreign currency operations in domestic financial markets. The financial sector also requires institutions, including development banks, to facilitate access to medium- and long-term finance, debt and equity financing for small and medium-sized enterprises, and services for small-scale savers. In addition, efforts in the development of domestic bond markets should continue, with an emphasis on lengthening maturities and avoiding a high volume of foreign-currency-linked instruments. Greater donor support is crucial to improve financial sector soundness in developing and transition economies. Financial sector assessment programmes should be followed up by adequate levels of technical assistance, bolstered by effective dialogue at the expert level on financial sector development among donors and developing and transition economies**.

53. In recent years, workers' remittances have become the third largest source of foreign exchange for developing countries as a whole, after export earnings and foreign direct investment (FDI) and well ahead of official aid. The high transaction cost of remittances, often exceeding 20 per cent of the amount sent, is a concern underscored in the Monterrey Consensus. Efforts by the Inter-American Development Bank and steps taken by host and home countries have led to major reductions in the cost of remittance transfers to Latin America. Similar moves are taking place in other regions.

54. The Monterrey Consensus underscored that the development and expansion of microfinance and credit for micro-, small and medium-sized enterprises is an important component of development and poverty reduction policies. Microfinance is increasingly making its contribution to improving the access of poor households, women and small and microenterprises in developing and transition economies to financial services, including credit, savings, insurance and money transfer. However, it still faces many obstacles, such as a lack of tangible collateral or information on creditworthiness and regulatory impediments that restrict the flexibility which microfinance institutions need to carry out their operations. Expanding its reach, which is still small relative to the size of potential users, as well as improving the access of people traditionally not considered creditworthy, such as poor women, remain big challenges. The challenge, as discussed at a five-year review of the Microcredit Summit, held in November 2002 as a follow-up to the first Microcredit Summit held in 1997, is to enhance the financial sustainability of microfinance institutions while increasing the number of targeted clients that they reach, particularly the very poor. One of the greatest constraints to the expansion of microfinance is the limited local capacity to implement programmes. National Governments and donors can play an important role in easing that constraint by identifying and making a long-term commitment to the appropriate organizations to undertake those programmes.

55. **Financial services should be strengthened for poor households, women and micro-, small and medium-sized enterprises, including in rural areas. The role of multilateral organizations and organizations in donor countries remains**

decisive in helping with the initial set-up and current costs, training and capacity-building. At the country level, public/private partnerships, enhanced participation of civil society organizations and business should also contribute to develop such services. Governments should formulate appropriate regulations that facilitate the operation and sustainability of those financial services.

III. Mobilizing international resources for development: foreign direct investment and other private flows

56. Private international capital flows, in the context of international and domestic financial stability, provide a vital complement to national efforts to mobilize financing for development. However, such capital movements to developing countries — the net flow of which comprise the inflows and outflows of foreign direct investment, portfolio investment and international commercial bank lending — have declined markedly from 1997 to 2001, with only a small increase in 2002, attesting to the need for the full implementation of the Monterrey Consensus (see table 2).

Table 2
Net private financial flows to developing economies and economies in transition, 1995-2002
(Billions of United States dollars)

	1995	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*
Developing economies								
Total, of which:	157.0	208.1	96.6	38.9	66.2	18.2	17.9	51.8
Net direct investment	82.0	97.2	120.5	128.0	133.0	125.6	145.3	110.0
Net portfolio investment	34.2	81.5	41.6	-3.7	39.0	9.7	-41.7	-40.0
Other net investment[a]	40.8	29.3	-65.5	-85.3	-105.8	-117.2	-85.8	-18.2
Economies in transition								
Total, of which:	51.4	20.2	-20.9	14.5	29.8	32.9	20.9	34.1
Net direct investment	13.0	12.3	15.5	20.8	23.8	23.4	25.2	29.2
Net portfolio investment	14.6	13.1	6.9	5.4	2.4	2.4	3.2	3.4
Other net investment[a]	23.8	-5.1	-43.3	-11.8	3.6	7.1	-7.4	1.5

Source: *World Economic and Social Survey 2003* (United Nations publication, Sales No. E.03.II.C.1).
[a] Including short-term and long-term commercial bank lending.

57. Foreign portfolio and other investment (mainly bank loans) in developing countries have registered net outflows each year since 1997. FDI remained the only positive net source of private foreign finance to those countries, but it declined sharply from $145 billion in 2001 to $110 billion in 2002. In the economies in transition, FDI and foreign portfolio investment have remained positive and relatively stable, while banking and other private flows have been volatile.

Foreign direct investment policies

58. Foreign direct investment in the developing world is largely concentrated in less than a dozen countries, which means that the majority of developing economies, particularly the least developed countries, do not share adequately in the benefits of FDI flows. The Monterrey Consensus thus highlights the importance of efforts to, inter alia, achieve a transparent, stable and predictable investment climate in order for countries to attract and enhance inflows of productive capital. It also stresses the need for appropriate regulatory frameworks to help provide an enabling environment for investment, whether foreign or domestic.

59. Appropriate policies will depend on a country's characteristics; in particular, the least developed countries and small island developing States face the constraint of low income and small market size and require stronger measures, while weak or unstable economies may be unable to attract any sustained FDI flows. Regional economic integration with other developing countries can ease that constraint. Overall, creating an appropriate and positive investment climate for investors has proven to be the best policy for most countries, large and small, developed and developing.

60. Yet in a large number of countries, improved regulatory frameworks and a more attractive domestic environment have by themselves not produced the anticipated increase in inflows. The Monterrey Consensus thus also recommends more proactive measures, including partnerships at the private as well as official and multilateral levels.

61. In that regard, some source countries of FDI have started to place more emphasis in their policy measures on the development impact of FDI, for example, targeting investment in least developed countries or in projects in locations and sectors in which the development benefits will be the greatest. The Cotonou Agreement between the EU and the group of associated African, Caribbean and Pacific countries, which was implemented in April 2003, is an example. The Agreement, the successor to the Fourth Lomé Convention, includes detailed provisions related to investment promotion, investment finance and support, and investment guarantees. It represents the most comprehensive set of home country measures concluded to date at the international level. It will thus be important to monitor and assess its implementation.

62. In addition, a large number of countries have entered into bilateral investment treaties and double taxation treaties, two instruments that are noted as potentially important in the Monterrey Consensus. Bilateral investment treaties seek to provide security to foreign investment through provisions for compensation in the event of nationalization or expropriation, dispute settlement and guarantees on the transfer of funds. Double taxation treaties are used to allocate taxable income between host and source countries and reduce the incidence of double taxation. By the end of 2002, there were 2,099 bilateral investment treaties or agreements and 2,185 double taxation treaties, the majority involving a developing country or transition economy.

63. A number of multilateral institutions also continue to assist developing and transition economy countries in attracting and benefiting from foreign investment. The Monterrey Consensus mentions the importance of risk guarantees to support foreign investment in the developing world, such as those provided by the Multilateral Investment Guarantee Agency of the World Bank, as well as the need

for strengthened technical assistance and capacity-building programmes on, inter alia, regulatory frameworks for investment programmes, effective investment promotion institutions and sector promotion strategies. The Monterrey Consensus also notes the usefulness of public/private partnerships to facilitate investment, such as the partnership of the United Nations Conference on Trade and Development (UNCTAD) with the International Chamber of Commerce in the Investment Advisory Council, which provides an informal and flexible framework within which senior business executives and senior government officials responsible for investment matters can interact on questions related to FDI. In addition, in some countries the World Bank and IMF have helped to organize national-level investment advisory councils.

64. Some countries that have been successful in increasing their FDI inflows have found that development benefits have not materialized as expected. When multinational firms create productive investments that are part of a geographically diversified supply chain, research and development activities may be preserved in the investor's home country, while the various stages of production take place in multiple units located in other countries. External investments that are attracted by the availability of low-wage labour for the export of domestically assembled goods made from imported semi-finished products often entail low domestic value added, little technology transfer or little increase in labour productivity. National policies should thus provide incentives to FDI that maximize technology transfer and domestic value added.

65. The Monterrey Consensus points out, in that context, the potential usefulness of establishing consultation mechanisms between international or regional financial organizations and Governments and also with the private sector in both source and recipient countries. Such mechanisms can reduce uncertainties about the policies and priorities of those actors and improve the economic environment for investment. The establishment of investment promotion agencies in many countries and the key role given to them to improve communications with the private sector indicate the increasing recognition of the importance of effective consultation mechanisms.

66. **Developing and transition economy countries and their bilateral and multilateral development partners should further integrate their efforts to improve regulatory frameworks for investment with national policies designed to ensure stronger economic growth, address market and institutional weaknesses and enhance local capabilities. Parties to bilateral and regional investment and double taxation agreements should pay greater attention to their development dimensions. Further analysis is required to identify additional proactive measures in source and recipient countries to attract FDI that will enhance technology transfer, spillover to domestic industry and improve the domestic value added of exports.**

67. The Monterrey Consensus urges the business sector to take into account not only the economic and financial but also the developmental implications of their business undertakings. That theme was an important part of the International Business Forum, which was held in Monterrey in conjunction with the Conference under the auspices of a coordinating committee of business interlocutors associated with the financing for development process. The committee included the International Chamber of Commerce, the Business Council for the United Nations and the World Economic Forum. Several initiatives launched at the Forum are

currently being pursued and regular briefings on their progress are being provided to delegations in New York.

68. Business participants and Governments participating in the Monterrey Conference made a number of proposals to promote the financing of investments in developing countries and countries with economies in transition that are currently being pursued with the support and encouragement of donor Governments and multilateral organizations. The investments should serve the sustainable development of those countries, including bringing water, electricity, education and health services to the population, in particular the poor. Business and government leaders should continue to discuss how such FDI opportunities can be best identified, financing secured and suitable projects implemented. Furthermore, they should discuss how the international business community can contribute to increase investment flows into the countries that are in most need of them, in particular in Africa.

69. For example, an initiative has been proposed to set up a series of regional funds specifically designed as venture capital. In a similar vein, to address the greater than anticipated risks associated with private international infrastructure investment that were identified in the 1990s, an expert study group on developing country infrastructure finance (which originated in a proposal made during the Monterrey Conference) is being set up with representatives from both business and official sectors. Internet technology will be employed to facilitate regular discussions by the experts in this group. Indeed, the same technology can also be used to more effectively carry out other consultations, such as consultations between Governments and investors, throughout the world. For example, the global information clearing house which was also proposed by business participants at the Monterrey Conference is being extended to include limited-access government-investor networks over the Internet to facilitate such communication.

70. More generally, an idea is currently being developed jointly by the Secretariat and some of the major business groupings to set up a number of structured multi-stakeholder study groups, comprising representatives from the business sector, Governments, academia and civil society organizations, to focus on a selected number of relevant topics in a series of workshops that would span a period of one to two years and make their findings available to the financing for development intergovernmental follow-up process as well as to other interested entities. Reports on those and other ideas and initiatives are expected to be provided to Governments at the hearings with the business sector representatives scheduled for 28 October 2003.

71. **Public and private donors and international organizations should consider underwriting additional proposals to explore innovative mechanisms to mobilize information and resources for foreign investment. Similarly, proposals to support debt and equity financing of small and medium-sized enterprises with external resources should also be explored. The United Nations Financing for Development Office, working in cooperation with UNCTAD, the United Nations Development Programme (UNDP) and other major institutional stakeholders, could serve as a focal point to receive and disseminate such proposals. In addition, the Financing for Development Office of the United Nations Secretariat, in cooperation with the United Nations Fund for International Partnerships and the new UNDP Commission on the Private**

Sector and Development, will promote consultations with private-sector foundations and businesses in order to consider creative ways to include important social concerns in relevant cooperation and investment programmes.

72. The Monterrey Consensus stresses the importance of promoting measures in home and host countries to improve transparency and information about financial flows. In that regard, IMF has enhanced its capacity to monitor and analyse developments in the international financial markets, such as by beginning to produce the quarterly *Global Financial Stability Report* to provide a more frequent assessment of global financial markets and to address emerging market financing in a global context.

73. In addition, although considerable efforts to improve international financial statistics have been made by Governments and international organizations, in particular IMF, the World Bank, the Bank for International Settlements and the Organisation for Economic Cooperation and Development, as well as UNCTAD and the regional commissions, significant gaps remain. For example, when adding up the balance of payments on current account of all the world's countries, the global surplus should equal the global deficit. Instead, figures have shown a global deficit of over US$ 130 billion each year since 2000. Information on short-term financial flows and incomes earned on such flows is the least reliable and recording should be strengthened because volatile short-term flows are at the centre of international financial instability. Improvements in that area would also increase the reliability of information on the stocks of external assets and debt levels.

74. In that regard, the scheduled review in the summer of 2003 of two already existing activities of IMF, the Data Standards Initiative and the Offshore Financial Centres Assessment Programme, provides an opportunity to recommend improvements, including technical assistance to developing countries and countries with economies in transition, to strengthen their collection and monitoring of information on financial flows, strengthen the monitoring of highly leveraged institutions in source countries, and improve disclosure and information on international and local derivatives markets.

75. All relevant statistical and policy information should be easily accessible to policy makers, investors and the general public. While Governments and the major international financial organizations have made great strides in bringing additional information to the investing public, it is essential to ensure that information is accurate and credible in the eyes of market participants. There are various private initiatives that seek to complement the official providers, including the web portal of the global information clearing house mentioned in paragraph 69 above.

76. **Reliable financial information is crucial to effective decision-making in the private and public sectors but is undersupplied. International financial organizations, in cooperation with the Statistical Commission, as appropriate, should strengthen efforts to improve the collection and dissemination of international financial data. Additional expenditure and technical assistance on statistical activities are needed at the national and international levels. Additional information dissemination initiatives should be encouraged and supported.**

77. The Monterrey Consensus welcomed efforts to encourage good corporate citizenship. Among those, the Global Compact initiative seeks to contribute to a

more sustainable and inclusive global economy by embedding universal principles of human rights, labour and the environment into corporate behaviour, in particular through the creation of country-level networks attuned to local circumstances and needs. As of June 2003, the Compact had been launched in more than 50 countries, mostly in the developing world, thereby creating national structures that bring together various social actors to address local needs. Other efforts to define the responsibilities of transnational corporations have intensified in recent years. Initiatives have been developed by civil society, international organizations and transnational corporations themselves. By and large, the various standards of good corporate citizenship are being embodied in voluntary instruments or codes of various types.

IV. International trade as an engine for development

78. As a result of such measures as the liberalization of trade policy globally and the application of appropriate structural adjustment policies, world trade has grown more rapidly than global output over the last decade. Developing countries have been active participants in that process and their share in world exports exceeded 30 per cent in 2001. However, a large number of developing countries, particularly the least developed and commodity-dependent countries, continue to remain marginalized in the trading system. Many developing countries' exports remain concentrated in products with low domestic value added and technology content. Moreover, the persistence of barriers to their exports by importing countries limits their ability to realize the potential contribution of trade to development. Also, their vulnerability to volatility in external earnings from trade and from external trade-related shocks continues. The Monterrey Consensus emphasizes the role that international policy could play in ameliorating that situation.

Current negotiations in the World Trade Organization

79. By placing development at the heart of multilateral trade negotiations, the Doha work programme adopted at the Fourth Ministerial Conference of the World Trade Organization (WTO) provides a major platform for efforts to increase the capacity of developing countries to benefit from participation in the global trading system. Countries have a mutual interest in the success of the programme, which is scheduled to conclude by 1 January 2005. The opportunity must be fully seized.

80. Effective and meaningful integration of the interests and concerns of developing countries and countries with economies in transition into the disciplines and the operation of the multilateral trading system is part and parcel of the programme. However, most of the preparatory deadlines set out for the Fifth WTO Ministerial Conference to be held in Cancún in September 2003 were missed. While the services negotiations advanced into the offer and request stages, participation by developing countries, especially least developed countries, was limited. Difficulties were also encountered in finding consensus on modalities for the special treatment of least developed countries in the negotiations on services.

81. The Monterrey Consensus highlights the urgency of providing enhanced and predictable access to all markets for the exports of developing countries. In the Doha Declaration, the Ministers agreed to negotiations that aim, by modalities to be agreed, to reduce or, as appropriate, eliminate tariffs, including tariff peaks, high

tariffs and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. It also provided that product coverage should be comprehensive and without a priori exclusions, and that the negotiations should fully take into account the special needs and interests of developing countries, including least developed countries.

82. Tariff protection continues to disproportionately hinder developing country exports. Sixty per cent of imports subject to tariff peaks in the United States, the European Union, Japan and Canada originate from developing countries. In the case of agriculture, tariffs applied by industrial countries to developing country exports average between 25 and 30 per cent, as compared with an average of 15 per cent for other industrialized countries. The level of agricultural subsidies and domestic support in developed countries, which put the developing countries at a competitive disadvantage, exceeds $300 billion. It has been estimated that the elimination of restrictions on agricultural trade alone could lead to an income gain for developing countries of up to $400 billion by 2015.

83. In addition, only 20 per cent of products integrated into the WTO rules in the first three phases (1995-2001) of the Agreement on Textiles and Clothing were subject to quotas, leaving elimination of quotas on the remaining 80 per cent of trade by the end of 2004. Market access difficulties can also be compounded by the abuse of anti-dumping measures, technical standards, sanitary and phytosanitary measures, rules of origin and subsidies. The rules of origin remain excessively complex and diverse, and preferential schemes carry too many conditions and technicalities that discourage their use by developing country exporters.

84. The contribution to developing country export earnings of services remains limited in most cases to the provision of lower-skill and labour-intensive services. The impediments to the movement of natural persons across borders to supply services need to be addressed in the negotiations under the General Agreement on Trade in Services (GATS). There are a number of additional areas in which policy could encourage expansion of developing country service exports, including effective implementation of article IV of GATS, in particular through ensuring the access of developing countries to technology, distribution channels and information networks, and the liberalization of market access in sectors and modes of supply of services. GATS liberalization should also provide safeguards to ensure full access for the poor to essential services, while article IX.2 allows flexibility to developing countries to liberalize fewer sectors and attach access conditions to foreign service suppliers.

85. In the area of agriculture, there continues to be widespread concern over the size of budgetary outlays devoted to protect agriculture in developed countries. In June 2003, the European Union adopted changes in the Common Agricultural Policy, a main aim of which is to break the link between subsidies and production. Indeed, targeted and time-bound reductions, with a view to phasing out all forms of export subsidy are necessary. Many have stressed the need to change rules governing domestic subsidies in order to ensure assistance is delivered to developed country farmers in a targeted, transparent, efficient and non-trade-distorting manner. However, attention should also be given to the potential for such non-distorting (green box) domestic subsidies, which are presumed to be independent of prices and outputs, to create distortions in international markets that impede developing country exports.

86. **It is essential that improving the market access of developing countries' exports of goods and services continues to be accorded high priority in implementing the Doha work programme. Full and timely completion of the implementation of the Agreement on Textiles and Clothing is critical and will send an important international signal. More meaningful market access is also warranted in sectors and modes of developing country supply of services, including the temporary movement of natural persons. Agricultural subsidies and support that impede competitive imports from developing countries are inconsistent with the spirit of the Monterrey Conference and must be reduced, including those not currently subject to WTO commitments, and export subsidies should be eliminated. All countries must exercise the utmost restraint in applying trade remedies, standards and rules so that they do not act as trade barriers.**

87. Increased and more effective market access can only enhance development finance if countries have the export supply capabilities to compete effectively in foreign markets. Discussions of the development dimension of trade must also consider creating the policy space required to support measures designed to build increased competitiveness through the support of adequate productive and technological linkages between export activities and the domestic economy. The objective should be to ensure not only access to existing international markets but the ability to develop new export markets through the creation and implementation of new process and product technology. Of particular importance in that respect is the consideration of the costs imposed by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) on developing countries that attempt to import technology to improve their export capabilities. No less important is progress in the implementation of paragraph 6 of the Doha Declaration on the TRIPS Agreement, which seeks to facilitate the provision of affordable medicines to developing countries.

88. **Consideration of the development dimension in trade policies should encompass how the TRIPS Agreement could be used to reduce the costs of technology imports to improve the productivity of domestic production structures and the supply and competitiveness of exports of developing countries. That consideration should be extended to how the Agreement on Trade-Related Investment Measures could foster technologically dynamic domestic production and export sectors.**

89. The Monterrey Consensus incorporates the decision taken in the Doha Declaration that special and differential treatment provisions for developing countries in trade agreements should be reviewed with a view to strengthening them and making them more precise, effective and operational. In negotiations, developing countries have made 88 proposals on various aspects of special and differential treatment; however, several preparatory deadlines for completion of work in that area have also been missed.

90. **A broad-based, development-oriented set of special and differential treatments of developing countries in trade policy needs to be formulated, taking into account the following considerations: the broad application of most-favoured nation and non-discrimination policies coupled with less than full reciprocity in negotiations; the calibration of disciplines in a manner commensurate with the trade, financial and developmental needs and**

capacities of developing countries; adequate flexibility with regard to inside-border issues and trade-related agreements; greater stability, security and predictability of the special and differential treatments; preferential market access; special consideration by developed countries before the application of trade defence measures against developing countries; full consideration of development dimensions in new and emerging issues; and the provision of adequate resources to developing countries to finance the implementation cost and consequent adjustment arising from multilateral trade agreements.

Policy support for the least developed countries

91. Although the participation of least developed countries in world trade remains marginal, several developed countries have recently taken policy action to improve the product coverage, depth of preferences and rules of origin of their autonomous preferential trading schemes for least developed countries, moving towards duty-free and quota-free market access, including the "Everything but arms" initiative of the European Union, the African Growth and Opportunity Act of the United States and improvement in the schemes of the generalized system of preferences by Canada and Japan. However, stringent rules of origin, complex documentary procedures and other practices reduce the extent to which least developed countries can actually utilize the schemes. In addition, several developing countries have provided trade preferences for least developed countries, primarily within the context of their regional trading arrangements.

92. Although 29 least developed countries that had been contracting parties of the General Agreement on Tariffs and Trade became de facto WTO members, others have had to negotiate their accession to WTO. Currently, 10 least developed countries are negotiating that process and a few are at an advanced stage. However, the accession process is onerous, and the demands in terms of the trade-liberalization commitments and policy changes requested from acceding least developed countries have in many cases not been commensurate with their ability to meet them. The WTO General Council in December 2002 thus adopted procedures to facilitate the accession of least developed countries and provided some guidelines for WTO members to take into account when requesting liberalization commitments from least developed countries applicants.

93. Trade-related technical assistance and capacity-building programmes are provided under various bilateral and multilateral programmes, a number of which, such as the Integrated Framework (IF) and the Joint Integrated Technical Assistance Programme (JITAP), are being strengthened. The revamped IF, implemented by UNCTAD, WTO, the UNCTAD/WTO International Trade Centre (ITC), the World Bank, IMF and UNDP, aims at mainstreaming trade into the national development plans or poverty-reduction strategies of least developed countries and assisting in the coordinated delivery of trade-related technical assistance in response to the needs identified by the least developed countries, including building supply capacities. JITAP, implemented jointly by ITC, UNCTAD and WTO, aims to build human, institutional, policy and export capacities in African countries as they integrate into the multilateral trading system. The recently finalized memorandum of understanding between WTO and UNCTAD will further facilitate collaboration in those areas.

94. **Schemes for preferential market access for least developed countries need to be consolidated and made more predictable. The developed countries should improve their trade preferences in terms of product coverage and depth of preference and ease the measures that limit the applicability of the trade preferences. Developing countries that have provided trade preferences to least developed countries should continue to improve them. The policy to facilitate the accession of least developed countries to WTO through guidelines for simplified and streamlined procedures adopted by the WTO General Council should be applied in full. Multilateral technical assistance programmes should further support and assist least developed countries, as well as other developing countries and countries with economies in transition, that are in the process of accession.**

Other trade policy issues

95. The Monterrey Consensus highlights the need to mitigate the consequences of low and volatile revenues from commodity exports. Despite progress made in the diversification of many developing countries' exports over the last decades, as many as 38 developing countries are dependent on a single commodity for more than 50 per cent of their export income, while 48 countries depend on only two. Price fluctuations have not diminished and the price levels of some important commodities have fallen significantly in recent years. For instance, coffee producers now receive roughly one third of the price that prevailed in the mid-1990s. In some cases, price volatility has been caused by excessively optimistic advice to producers on potential market growth, pro-cyclical producer response to price volatility or disruptions due to domestic conflicts. The management of fluctuations in commodity prices is a formidable task for Governments and enterprises, which should involve, inter alia, greater attention to supply adjustments.

96. **Since trade in commodities continues to be a crucial source of development resources, attention should be given to: (a) mitigating the consequences of temporary earnings shortfalls, including through IMF facilities, as well as through market-based instruments, such as the development of futures markets in producing countries; (b) measures to balance supply relative to potential market expansion for key commodities; and (c) production diversification and trade-facilitation programmes. Governments should also consider dialogue with enterprises regarding measures to support market forces that improve prospects for commodity export revenues and the diversification of developing country exports.**

97. More than half of world trade now occurs within existing or planned regional trading arrangements, which is the result of an acceleration in the formation of such arrangements and the widening and deepening of existing free trade areas or customs unions. As of December 2002, more than 250 agreements have been notified to WTO, 130 of those since January 1995. That phenomenon has resulted in as many as 146 WTO members being party to at least one regional trading arrangement. The Doha work programme on rules in respect of RTAs aims to clarify and improve, inter alia, the examination procedures of regional trading arrangements so that the testing of WTO compatibility can be more effectively undertaken and thereby minimize the risk associated with, and prevent the growth of, discriminatory arrangements.

98. Many of the subregional and regional economic cooperation and integration agreements, as well as some interregional arrangements, have a wide range of economic, political and social objectives and multisectoral approaches, including the formation of a consolidated trade and investment space. Many South-South trading arrangements have accelerated the liberalization of trade in goods and started work on liberalizing trade in services. A few have achieved complete custom union status with the adoption of a common external tariff. For many countries, successful regional integration can serve as a platform for gradual and active integration into the global economy. Regional and subregional trading arrangements are also a component in the search for solutions to the problems facing landlocked and island developing countries through the facilitation of trade with their neighbours, as well as removing transit barriers. Thus, it is important for developing countries and countries with economies in transition to continue to explore the benefits and costs of deepening trade-integration schemes.

99. The fortieth anniversary session of the United Nations Conference on Trade and Development (UNCTAD XI), to be held in Brazil in June 2004, will provide an important opportunity to assess the efforts to follow up on the Monterrey Consensus in the areas of international trade policy and development. Coming six months before the conclusion of the Doha process, it will provide a crucial forum for assessment of its likely results, as well as of trade policy measures enacted outside WTO. It will be able to identify needed collaborative activities on issues relating to trade and their implications for financing for development and to forge greater coherence in relevant multilateral and bilateral cooperation programmes.

V. Increasing international financial and technical cooperation for development

100. The International Conference on Financing for Development was held at a critical moment in the history of international development assistance. In 2000, the political leaders of the world adopted the Millennium Declaration to scale up their development ambitions. They set a number of goals that have come to be called the Millennium Development Goals; yet official development assistance (ODA) was then at an all-time low as a ratio to donor-country income.

101. The Monterrey Consensus not only seeks to halt the downward trend in aid but also seeks to create a new, reinvigorated climate of international cooperation for development. The key elements of the structure and functioning of the envisioned new aid architecture are the notions of partnership and mutual accountability. Developed and developing countries are to share the responsibility for effecting needed reforms, creating through efforts on both sides a virtuous circle of accelerating progress towards development and the agreed upon international goals and targets. Progress, though uneven, can be observed on three major fronts: focusing aid to enhance aid effectiveness; increased aid efficiency through greater harmonization and coherence; and raising the overall volume of aid.

Focusing aid to enhance aid effectiveness

102. The current international debates on focusing aid dwell on three key topics: (a) better issue prioritization so as to focus aid on the Millennium Development Goals, including on related support initiatives, such as building national capacity for

improved public expenditure management; (b) more careful operational strategizing so as to select the policy approaches best suited for a particular purpose under given circumstances; (c) enhanced country "selectivity" so as to focus aid on the poorest and most vulnerable while at the same time reinforcing actions of the best-performing countries.

103. The preparation of poverty reduction strategy papers is intended to be an important vehicle for orienting aid towards key issues and objectives in low-income countries. Although there is currently greater recognition of the importance of country specificity and diversity, more and more poverty reduction strategy papers try to focus on attaining the Millennium Development Goals, and international financial institutions and other multilateral development agencies increasingly use such papers as a decision-making tool. For example, they influence decisions relating to the Poverty Reduction and Growth Facility of IMF, the design of the World Bank's country assistance strategies, and access to resources of the International Development Association (IDA), the World Bank's concessional lending facility, as well as the operations of the Heavily Indebted Poor Countries Initiative and the formulation of United Nations common country assessments and development assistance frameworks.

104. Furthermore, the Development Assistance Committee (DAC) of OECD is exploring how poverty reduction strategy papers can help to orient bilateral development assistance programmes. In fact, most industrial countries have already recast their bilateral aid policies so as to better align with the concerns of the Millennium Development Goals and country-owned poverty reduction strategies. The same holds true for the European Commission. As also evident from the Summit of the Group of 8 (G-8) held at Evian-les-Bains, France, in June 2003, there is strong and still growing policy commitment to placing the Goals firmly at the centre of development efforts.

105. Reports on progress towards the development goals in the Millennium Declaration, poverty reduction strategy papers and related policy documents often act as rallying points for initiatives undertaken by the regional development banks and agencies. For example, recognizing that two thirds of the world's poor live in Asia and that large numbers of them are women, the Asian Development Bank recently established the Gender and Development Cooperation Fund in order to help make progress on meeting the Millennium Development Goals, most of which exhibit gender dimensions.

106. The specification of issue-targeted initiatives and financing reflects a further prioritization of aid. For instance, the Global Fund to Fight AIDS, Malaria and Tuberculosis helps to target aid allocations to some of the most pressing global health challenges. The Education for All initiative would also have such an effect, as would other thematic trust funds that have been established in recent times. The trust fund arrangements, however, pose a new challenge: they call for added attention to ensuring a proper interface between global and regional initiatives and country-based programme efforts.

107. As recognized in the Monterrey Consensus, an important aspect of identifying strategic entry points for aid is to explore opportunities for partnerships with non-state actors, notably civil society and the business sector. The increasing acceptance of that fact is, for example, evident from the large number of partnerships agreed at the World Summit on Sustainable Development, held in Johannesburg, South Africa,

in 2002. About 500 proposals were submitted to the Commission on Sustainable Development, over half of which have been approved.

108. Regional cooperation can also raise aid effectiveness. With respect to certain objectives, it is sometimes desirable for developing countries to join forces and undertake common initiatives so as to facilitate the internalization of regional externalities or exploit economies of scale or scope. Such pooling of efforts could, for example, be the right strategy to facilitate the availability of medicines for malaria control or the management of transborder water problems. Thus, the best use of aid may sometimes be on regional or global initiatives.

109. Establishing clear aid priorities and devising strategies for achieving them are important means of allocating aid. But it is unclear to what degree aid flows have followed the new policy priorities and strategies, since in many instances strategies are still under preparation. Moreover, despite efforts to enhance ownership, in several countries the process remains largely driven by donors. It is crucial that the recipient/donor partnership be based in a national development strategy formulated by the recipient country.

110. **Recipient countries and multilateral and bilateral donors should undertake additional efforts to strengthen and ensure the ownership of development assistance programmes. Recipient countries should formulate their national development strategy in consultation, as appropriate, with civil society and the business sector. When requested, donors should assist in the formulation of that strategy. Multilateral and bilateral donors should align their aid programmes behind the national development strategy.**

111. Channelling resources to countries with a demonstrated commitment to policy reform and poverty reduction can improve aid effectiveness. Development assistance is increasingly assuming an incentive-based character, pulling rather than pushing national development efforts. However, focused aid has also brought to the fore the challenge of global equity since international development cooperation remains fully warranted, with a number of countries still confronting serious obstacles on the road to economic growth and sustainable development. Such situations should not be neglected. On the contrary, they need full attention. It is vital to continue to operationalize both development assistance programmes for "fast track" countries and programmes for countries that have yet to embark on a more sustained development path.

Increased aid efficiency through greater harmonization and coherence

112. As the various recommendations on aid modalities and procedures of the Monterrey Consensus demonstrate, there is growing consensus on the package of measures needed to promote the twin goal of enhanced aid efficiency and sustainability. In particular, streamlined aid disbursement procedures will contribute to lowering the transaction costs of delivering aid. A major step towards better harmonizing aid procedures was taken in the Rome Declaration on Harmonization adopted by the High-level Forum on Harmonization (Rome, 24 and 25 February 2003), which was attended by 20 bilateral and multilateral development organizations and some 50 country representatives. Various efforts have been given a boost as a result, including Japan's plan of action on harmonization and the action plan to promote harmonization of the United Kingdom. Furthermore, the new OECD/DAC Working Party on Aid Effectiveness and Donor Practices was created

to further facilitate the harmonization and alignment of donor practices with country strategies, the measurement of results and quality of aid programmes, and the next steps in the untying of aid.

113. It has also been recognized that development and aid effectiveness are often jeopardized by the lack of coherence between different sets of policies pursued by donor countries: there are often inconsistencies between their aid policies and their international trade and finance policies. That is a major concern that is highlighted in the Monterrey Consensus.

114. An adequate dialogue and flow of information among all partners — aid-receiving countries as well as the more common dialogues among donors — are prerequisites for harmonization and coherence. Stimulated by the Monterrey Consensus and its call for a new sense and practice of partnership, a number of agencies and countries have announced policies of enhanced transparency and accountability. More and more national and international development agencies are posting relevant information on their web sites. In addition, some developing countries are beginning to be more involved in the international aid dialogue, albeit mostly on the invitation of donor countries, as for example, in the context of OECD/DAC peer reviews. In addition, there is an increasing development dialogue in the G-8 Summit and at the ministerial level, for instance in the "big table" meetings organized by the Economic Commission for Africa.

Increasing the volume of aid

115. The Monterrey Conference provided a fresh impetus to development assistance. ODA levels increased by about 5 per cent in 2002, reaching about $57 billion. But, as is widely recognized, current levels of ODA are still well below those needed to achieve the Millennium Development Goals and other internationally agreed development objectives. Also, larger flows of aid need to be directed towards the least developed countries — rising to the international target of 0.15 to 0.20 per cent of the gross national product (GNP) of developed countries — and to small island developing States and landlocked countries.

116. Positive steps have already been taken on several fronts. A wide array of initiatives targeted at countries, regions and groups, such as the Brussels Programme of Action for the Least Developed Countries for the Decade 2001-2010, the G-8 Africa Action Plan, NEPAD, the Strategic Partnership with Africa and the Tokyo International Conference on African Development, play an important role in encouraging the desired increases in aid allocations.

117. According to some estimates, attaining the Millennium Development Goals is likely to require an additional $50 billion per year over the 2000-2001 ODA level. Rough estimates indicate that implementing the above-mentioned measures to raise aid effectiveness could free for new and additional purposes approximately $7 billion of aid currently locked into inefficient aid practices. The rest must be provided in additional flows.

118. At the time of the Monterrey Conference, a number of countries announced further improvements in their aid levels, including the European Union's "Barcelona Commitments" and the United States' establishment of a new "Millennium Challenge" account. Since the Conference, some other countries have followed suit and a few have even expanded their pledges beyond the levels announced in Monterrey.

Table 3
Status as of June 2003 of ODA commitments by OECD/DAC countries in terms of percentage of GNI, and ODA/GNI ratios for 2002

		ODA/GNI 2002[a] *(Percentage)*
Countries that have reached 0.7%		
1. With time frames to further reach 1%	• Luxembourg to reach 1% by 2005	0.78
	• Norway to reach 1% by 2005	0.91
	• Sweden to reach 1% by 2006	0.74
2. With no further commitments	• Denmark	0.96
	• Netherlands	0.82
Countries that have not reached 0.7%		
1. With time frames to reach 0.7%	• Belgium to reach 0.7% by 2010	0.42
	• Finland to reach 0.4% by 2007 and 0.7% by 2010[b]	0.35
	• France to reach 0.5% by 2007 and 0.7% in 2012	0.36
	• Ireland to reach 0.45% by 2002 and 0.7% by 2007	0.41
2. With time frames for interim targets only	• United Kingdom to reach 0.4% by 2005-2006	0.30
	Rest of EU countries to reach 0.33% by 2006[c]	
	• Austria	0.23
	• Germany	0.27
	• Greece	0.22
	• Italy	0.20
	• Portugal	0.24
	• Spain	0.25
	Other Countries:	
	• Australia to increase ODA by 3% (real terms) by 2002-2003	0.25
	• Canada to increase ODA budget by 8% annually so as to double its ODA by 2010	0.28
	• Switzerland to increase ODA to 0.4% by 2010	0.32
	• United States to increase ODA to 0.15% by 2006[d]	0.12
3. With no time frames to reach 0.7% and no time frames for interim targets	• New Zealand to review future level of ODA	0.23
	• Japan to review future level of ODA	0.23

Note: Unless otherwise indicated, data source is "ODA prospects after Monterrey: update" (DCD/DAC(2003)8), document prepared for an OECD high-level meeting on 22 and 23 April 2003.

[a] See "OECD/DAC countries begin recovery in development aid: 5% increase in 2002" (http://www.oecd.org/EN/document/0,,EN-document-57-2-no-12-40658-57,00.html).

[b] See report on the level and quality of Finland's development cooperation (http://global.finland.fi/index.php?kieli=3).

[c] As per the decision taken by the European Council in Barcelona on 15 and 16 March 2002; see "Presidency Conclusions: Barcelona European Council, 15-16 March 2002" (http://europa.eu.int/council/off/conclu/).

[d] Projected increase by OECD/DAC based on: (a) approval and implementation of the Millennium Challenge Account (with a budget of $5 billion in 2006); and (b) the implementation of the emergency plan for AIDS relief to combat the HIV/AIDS pandemic (with funding of $15 billion, $10 billion of which is new funding).

119. Table 3 presents an overview of aid pledges made by donor countries; it shows that aid levels could rise by $16 billion or about 30 per cent in real terms by 2006. Increases may also occur as new EU Member States join the ranks of donor countries. Moreover, a number of developing countries also have important aid programmes. For example, Brazil, China, India, the Republic of Korea, South Africa and Tunisia are only some of two dozen developing countries that have a strong record of supporting South-South cooperation. The same holds for some transition economies, notably the Russian Federation. But even including those countries, the likely shortfall in financing for the Millennium Development Goals remains large.

120. For mobilizing additional ODA resources in a timely fashion, the United Kingdom has proposed an international finance facility that would obtain donor-country commitments to pay funds from aid budgets into the facility in the future, and against those commitments would issue bonds in international capital markets. The objective would be to accelerate the increase in aid levels so that considerably more aid is available during the next few years, when developing countries have to undertake significant investments in their programmes related to the Millennium Development Goals.

121. **In order to meet their share of responsibility in the partnership embedded in the Monterrey Consensus, donors should fully and promptly implement their commitments to increase aid flows. They should give serious consideration to various proposals that would improve the near-term flow of aid as well as those that ensure resource additionality. Moreover, while a certain focus has been made on reaching specific aid levels by 2006, the predictability of subsequent aid flows is also required, including flows up to the target year of 2015 and beyond.**

Other official resources

122. In the middle 1990s, questions began to be widely raised about the future of multilateral development lending. Increasingly, the middle-income countries were directly accessing international capital markets rather than relying on the World Bank and regional development banks for their traditional function of financial intermediation. After the financial crises in subsequent years and the contribution of those institutions to international counter-cyclical financing, it can be said with confidence that they remain critical to development. In addition to their direct lending, the multilateral banks should play an increasing role in helping countries to gain financial market access in general and financing for specific projects in particular, where technical and financial bank assessments and participation, let alone occasional guarantees, are highly valued by potential private partners and creditors. As institutions that rely heavily on the financial markets for their own funding, the multilateral banks are natural repositories of considerable financial expertise, which can assist borrowing countries. In that regard, the multilateral development banks can help to attract private financing for development. In addition, sharing the experience of those institutions can contribute significantly to groups of developing countries that may seek to establish their own additional international institutions for development financing or strengthen existing ones, such as the Andean Development Corporation and the Arab Fund for Social and Economic Development.

123. In addition to official development financing, the international community provides concessional official resources for additional — indeed, growing — needs,

including such concerns as global climate change, preventing financial crises, containing communicable diseases or providing security in war-ravaged countries. Although some of those resource flows are internationally monitored, it seems important to consider whether flows for other global purposes — to finance "global public goods" — should also be monitored.

124. Finally, to support development assistance as well as to be able to deploy more resources for other global exigencies, it will become increasingly important to consider additional and innovative ways of mobilizing resources and making the needed resources available in a timely and predictable fashion. In that regard, as a follow-up to paragraph 44 of the Monterrey Consensus, the World Institute for Development Economics Research of the United Nations University, at the request of the Department of Economic and Social Affairs of the United Nations Secretariat, is conducting a study to explore a range of new and innovative sources of financing. The results of that study will be presented in 2004 and made available to Member States for their consideration. Ideas that are perceived as socially or economically desirable, as well as technically and politically feasible, could result from that and other studies and debates on similar topics. Their adoption would be an important step towards realizing the objective of ensuring additional long-term resources for development.

VI. External debt

125. The Monterrey Consensus views sustainable external borrowing as an important element in the financing of public and private investment. However, it has proved difficult to make the concept of "sustainable debt" fully operational, especially since the performance of the world economy has repeatedly disappointed the expectations built into the scenarios on which the assessment of a country's debt-carrying capacity needs to be based. Even if a country's debt appears sustainable at a moment in time, whether or not it actually is depends on the kinds of economic shocks that it is subsequently subjected to, the capacity to respond adequately to them, the quality of its debt management and the access to financing on appropriate terms to counter the impact of economic stocks.

126. In June 1992, IMF responded to such concerns by adopting and implementing a new analytical framework for debt sustainability in countries with significant access to international financial markets. An analytical framework for the low-income countries, including the heavily indebted poor countries, is being finalized. The Monterrey Consensus notes that in such future reviews of debt sustainability, account should be taken of the impact of debt relief on progress towards the achievement of the development goals of the Millennium Declaration, while it also acknowledges that debt relief per se will not release sufficient resources to attain those goals. Moreover, concerns have been raised that debt sustainability analyses should not restrict the ability of countries to scale up essential spending for exceptional needs, such as may arise from conflict resolution or dealing with natural disasters and the HIV/AIDS pandemic.

127. The Monterrey Consensus emphasizes the need for speedy, effective and full implementation of the HIPC Initiative, which was introduced in 1996. As of end-June 2003, out of 26 heavily indebted poor countries that reached the intermediate benchmark, the decision point, when interim assistance is increased, eight have

reached the completion point. Moreover, some of those eight countries have experienced worsening debt indicators, owing to lower commodity prices and export receipts than had been assumed. In response, the option has been created to "top up" the assistance provided at the completion point if it is found that exogenous factors have caused a fundamental change in a country's debt sustainability outlook. That possibility has been used thus far in one country.

128. The delay in bringing more countries to their completion point is attributed to the problems faced by some countries in implementing parts of their macroeconomic and structural reform programmes and preparing poverty reduction strategy papers, as well as slow progress in reaching the completion point triggers. The domestic policy disappointments reflect, in part, the weak international economy of the past few years, but they also raise questions about whether expectations were too high for the growth of exports and GDP, as well as the extent of feasible policy reform, let alone the adequacy of the proposed debt relief during the course of a country's programme.

129. Compounding those problems has been the long delay in raising resources to fully fund the HIPC Trust Fund. But even when pledges are fully paid, it is unclear whether they would be adequate to fully attain their objectives, especially since many heavily indebted poor countries' economies remain more fragile than expected and the world economy remains sluggish. The latter implies a confirmation of disappointing trade trends and reflects the need of such countries to receive more of their capital inflows in the form of grants.

130. **The international community should strengthen its efforts to assist the heavily indebted poor countries to achieve a sustainable debt situation. All official and commercial creditors must provide the agreed relief. In a number of cases, even deeper debt relief than has been accorded is required. To finance the warranted relief in those cases, additional contributions by donors and creditors is required. For low-income countries, especially heavily indebted poor countries, and barring a strong improvement in export prospects, the maintenance of debt sustainability requires that new external resources be primarily non-debt-creating inflows, to which foreign direct investment can contribute under appropriate policy regimes, while a significant shift in official flows from loans to grants is essential.**

131. The lack of mechanisms for an orderly and effective resolution of unsustainable sovereign debt situations is considered to have been one of the major gaps in the international financial architecture. Over the past two years, there has been a vigorous and constructive debate on ways to resolve that problem. At the centre of that debate has been the IMF proposal for a sovereign debt restructuring mechanism.

132. The debate has been instrumental in developing a better understanding of the issues related to sovereign debt restructuring and advancing work in a number of areas to improve restructuring arrangements. In particular, a growing awareness within financial markets that there is a need for a better process has renewed the momentum on the design and use of collective action clauses, which would prevent a small minority of bondholders from impeding individual bond restructuring and specify the modalities of the restructuring process itself. Both the Governments in the working group of the Group of 10 and private creditor associations have been drafting sets of model clauses. Also, discussions have begun on a voluntary code of

conduct, which would broadly stipulate the roles that key parties would be expected to play during times of crisis. To be successful, such a code of good conduct needs to be based on a broad consensus. All relevant stakeholders should therefore be involved in the process of drafting such a code.

133. A number of developing countries, notably Mexico in late February 2003, have begun to include collective action clauses in their newly issued bonds governed by New York law. Although Mexico was not the first to include a collective action clause in a bond under New York law, the publicity that accompanied Mexico's issue seems to have encouraged emerging market issuers to embrace that practice more broadly. In addition to the existing practice of such countries as Canada and Japan, member States of the European Union have pledged to include collective action clauses in their own government bonds issued under foreign jurisdictions. It is indeed important for developed country issuers of foreign bonds to include comparable collective action clauses in their issues so that a standard global practice emerges, preventing the mechanism from generating a new form of discrimination against developing countries, particularly emerging economies.

134. Another positive development has been a new Paris Club approach to debt restructuring. At their meeting on 17 May 2003, the finance ministers of the Group of 8 agreed that the Paris Club should tailor its response to the specific financial situation of each country rather than define standard terms uniformly applicable to all borrowers. They endorsed more flexible procedures of debt restructuring designed to achieve lasting debt sustainability. Under the new approach, the Paris Club could draw on a wide range of options to facilitate the return to debt sustainability, including, in exceptional cases, debt reduction when linked to the implementation of an IMF programme. The ministers also called for better coordination between the Paris Club and the private creditors on the issue of the comparability of treatment of their respective claims. The G-8 ministers will review the implementation of the new approach in spring 2004.

135. In contrast to the good progress made on bond contracts and Paris Club debt, there has been less agreement on the more comprehensive approach, such as the proposal for a sovereign debt restructuring mechanism, which aimed to enable a debtor in crisis and a qualified majority of its creditors to make a restructuring agreement binding on all creditors in all the covered classes of debt through a formal international process established through statutory changes. Although a number of countries expressed interest in further developing the sovereign debt restructuring mechanism proposal, there was not sufficient support to move to implement the proposal by amending the IMF articles of agreement, as had been proposed. Several emerging market countries feared that the sovereign debt restructuring mechanism might not only raise their borrowing costs and impede market access but also entail a loss of sovereignty. In their turn, many private creditors worried that, a sovereign debt restructuring mechanism, by overriding existing bond contracts, would curtail the legal rights of bondholders.

136. The concern now is whether the collective action clauses approach, which by design is not comprehensive and applies only to newly issued bonds, will suffice. The consideration of the sovereign debt restructuring mechanism has raised several issues of general relevance to an orderly resolution of financial crises, including but not limited to comparable treatment of all creditors, full participation of all creditors in each creditor class, and most importantly ensuring overall adequacy of negotiated

debt relief packages for the debtor country and its people. Thus, it is important that work continue both on those issues and on mechanisms that incorporate or build on the collective action clauses approach, since the two would complement each other. In addition, supplementary multilateral instruments might be conceived for use after a debt restructuring were agreed to facilitate the reinsertion of the country into private international markets. Access to such instruments might also increase the attractiveness of drawing upon the comprehensive mechanism. In sum, the consideration of international approaches to orderly debt workouts is unfinished business and further multi-stakeholder exploration of feasible options is warranted.

137. **The relevant stakeholders should continue to consider in all appropriate forums potential international modalities for sovereign debt restructuring. An open and informal expert study group on debt and its development dimensions, organized within the framework of the financing for development process, could make an important contribution in that regard. The study group could seek to develop outlines of proposals that might gain broad support for a comprehensive, coherent and fair debt workout mechanism, as an integral part of the international strategy for financial crisis prevention and resolution. Such an informal study group would provide a unique opportunity for valuable and broad-based consideration of proposals on this subject.**

VII. Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development

Strengthening the international financial architecture to support development

138. "Multilateral surveillance" is a term that originally referred only to IMF oversight of the macroeconomic situation of member countries but is used more widely today, as in WTO oversight of national trade policies. The term can even be applied to global public health monitoring by the World Health Organization, which, as in the financial and trade areas, can be followed up with collective assistance mechanisms, as recently evidenced by the struggle against severe acute respiratory syndrome. Although each specific modality of multilateral surveillance focuses on the primary mission of the multilateral institution carrying out the surveillance, most have a development dimension.

139. Multilateral surveillance of national economic and financial policies, as well as of developments in global markets, particularly by IMF, is a critical instrument of the international community for the prevention of financial crises. Surveillance is also a mechanism for the promotion of adequate and sustained economic growth for sustainable global development and poverty eradication.

140. In addition to the traditional macroeconomic policy areas, IMF surveillance is currently focusing on structural and institutional policies, improvement in the transparency of countries' policies, observance of various standards and codes, and assessment of financial sector soundness. Increased attention is also being paid to the improvement of debt sustainability and vulnerability assessments, as well as to global linkages.

141. Although the merits of the more comprehensive surveillance efforts are recognized, concerns have been raised recently about the possibility of overloading

the capacities of national authorities in developing countries and countries with economies in transition due to the increased burden of the various surveillance exercises. It has also been argued that the steady growth of initiatives may dilute policy advice, undermining the main purpose of surveillance. With so many instruments being introduced, there may be less focus on areas that can really enhance a country's crisis prevention capacities. In some cases, it may be preferable to do less but do it better to ensure that the advice has impact.

142. The advice that accompanies multilateral surveillance of developing and transition economy countries, as well as the policy reforms that comprise the conditionality for IMF-supported adjustment programmes, should also make room for an eclecticism that reflects adequately each country's situation as well as ongoing international policy debates. In that regard, substantial efforts are being made by the Fund, as well as by other relevant international entities, to enhance their ability, when called for, to identify and correct possible past errors and adjust their policy advice accordingly. Recent Fund decisions to streamline conditionality may also be seen in that way and they should increasingly be reflected in the individual adjustment programmes agreed with member countries. Such steps have been reinforced most recently by the creation of the Independent Evaluation Office.

143. The growth of the world economy and the stability of the international economic and financial system depend to a large extent on an appropriate global macroeconomic policy setting, which in turn depends primarily on the actions of the major industrialized countries. That can be seen most recently in the growing international concern about the threat of general deflation and prolonged slow growth of world output and trade, which brings to the fore the importance of effective multilateral surveillance of the policies of those countries. They have thus been repeatedly called upon to pay particular attention to the coherence of their policies with global objectives and priorities.

144. In that context, the international community also needs to remain alert to the possible adverse consequences for international economic conditions of policies designed to address structural or institutional weaknesses. A case in point is the concern expressed recently about a possible disincentive to the level of financial flows to developing countries and increase in their volatility that might follow adoption by banks in developed and other countries of the proposed new capital adequacy standards being devised by the Basel Committee on Banking Supervision. The new standards are expected to be finalized in the fourth quarter of 2003 and begin to be implemented in late 2006. The question is, first, whether policy that focuses on increasing the risk sensitivity of individual banks in fact reduces the riskiness of the international financial markets as a whole and, second, whether other international policies might need to be adapted to compensate if the new standards indeed dissuade lending to developing countries or make it more pro-cyclical.

145. **Since surveillance is the chief global mechanism for the multilateral review and discussion of the macroeconomic policies of all member countries of IMF, it is essential to continue to strive to ensure that it be as effective and symmetric as possible. It is necessary to further tailor priorities on the content of surveillance so that they are compatible with individual country needs and capacities, especially in developing countries and countries with economies in transition. Also, given the global impact of economic developments in the large**

developed countries, it is imperative to find pragmatic ways to further strengthen the surveillance of the economic, financial and trade policies of those countries.

146. The international community has long accepted a responsibility to provide financial support to countries with balance-of-payments problems. The Monterrey Consensus asserts that such international programmes of support for economic recovery should be designed to minimize the negative impact on the vulnerable segments of society. Moreover, along with the programming of adequate resources in support of adjustment, the forms of assistance may need to be adjusted in a timely fashion when circumstances change. Indeed, the international community should be able better to assist low-income and middle-income countries to weather exogenous shocks, for which the forthcoming review of the IMF Compensatory Financing Facility will be relevant. Multilateral loan facilities should also be able to better support countries in capital-account crises that, to a greater degree than current-account developments, move much faster today and may generate large swings in capital flows.

147. In fact, IMF responded to the new reality in 1997, when it established the Supplemental Reserve Facility (SRF). SRF can provide larger and more front-loaded packages to countries hit by capital-account crisis. In March 2003, the IMF Executive Board decided to lengthen the maturity of drawings from SRF because experience had shown that the duration of countries' need for balance-of-payments financing has sometimes been longer than originally expected.

148. It was recognized, however, that SRF needed to be supplemented by a capability to provide a large amount of funds very quickly, based on ex ante judgements and preconditions. The Contingent Credit Line, introduced by the Fund in 1999, was intended to fill this gap: it gives prequalified borrowers a credit line on which they can draw with a high degree of automaticity during an emergency. However, as of June 2003 no member country has availed itself of the facility. The key problem is that potential users are concerned that application for the facility, let alone drawing from it, would be viewed as a sign of weakness by the market, thereby reducing rather than strengthening confidence in the country. The scheduled expiration of the facility is November 2003, and there appears to be insufficient support to extend it.

149. Meanwhile, IMF is exploring other ways to achieve the objectives of the Contingent Credit Line. On the one hand, this entails further strengthening surveillance and reinforcing the Fund's crisis prevention and signalling role. On the other hand, it is vital to have the capacity to respond quickly to the financial needs of member countries with sound policies that are challenged by the actions of globally integrated capital markets. Given the increased importance of faster and more automatic access to significant financial resources during such crises, the development and consideration of possible mechanisms for emergency lending should continue in the relevant global and regional forums.

150. Along with the need for appropriate international lending facilities, the recent financial crises highlighted the importance of adequate foreign reserves as a defence against the disruption arising from capital flow reversals. Developing countries and countries with economies in transition have had to build up their stock of reserves so that the reserves could at least cover short-term foreign debt. However, for those countries the burden of reserve accumulation could be very substantial either in

terms of reduced consumption and investment or in terms of high borrowing costs. In that regard, there have been proposals to resume regular special drawing rights allocations to satisfy part of developing and transition economies' growing demand for international reserves. It has also been proposed that provision be made to permit temporary (counter-cyclical) allocations of special drawing rights during crises to finance exceptional needs for IMF resources. In addition, consideration should be given to what would be an appropriate future role of special drawing rights in the international monetary system.

151. **The international financial institutions and other cooperative mechanisms should explore further the development of loan facilities and credit lines to better address the range of balance-of-payments financing needs faced by countries in different economic circumstances. Governments that have not already accepted the pending special one-time allocation of special drawing rights, endorsed by the IMF Board of Governors in 1997, should do so without further delay so that it may come into effect. In the light of the request contained in the Monterrey Consensus, IMF should keep under review the need for special drawing rights allocations.**

152. Financial crises of the 1990s have reignited efforts to promote regional monetary cooperation with a view to achieving greater regional financial stability. Actions at the regional level, some of which are long-standing, such as the Latin American Reserve Fund and the Arab Monetary Fund, are seen as important complements to the global cooperative framework. Regional groups offer opportunities for macroeconomic consultation and coordination, monitoring financial vulnerabilities, and administering schemes for mutual assistance.

153. In that regard, a most noteworthy development has been the initiative to further monetary and financial cooperation in East Asia. In May 2000, 10 member States of the Association of Southeast Asian Nations plus China, Japan and the Republic of Korea adopted the Chiang Mai Initiative. The ASEAN+3 countries proposed to strengthen regional cooperation through an expanded network of swap facilities among their central banks. As a result, the ASEAN countries agreed to expand the existing ASEAN swap arrangement and a consensus was reached over the basic framework and main principles for new bilateral swap arrangements, which are beginning to be put into effect. The ASEAN+3 countries also considered strengthening the regional policy dialogue and cooperation in surveillance and monitoring, including of capital flows. Currently, efforts are being made to develop early warning systems and to monitor short-term capital flows. Meanwhile, in response to similar concerns, efforts are being made to define common goals for macroeconomic coordination within Latin American and Caribbean subregional integration processes.

154. The development of such regional arrangements raises important issues of their relationship with the global governance structures. There should be coherence and consistency between regional monetary cooperation tools and IMF facilities and policies. In the case of the Chiang Mai Initiative, it has been decided that the activation of loans beyond 10 per cent of the agreed bilateral lines will take place in the context of IMF-supported programmes. It has also been decided that bilateral swap arrangements should complement and supplement IMF facilities, at least until a formal regional surveillance system is brought into existence. At the same time, the emergence of the Chiang Mai Initiative signals the interest of policy makers in

developing countries in exploring a less centralized and more flexible international financial architecture.

155. **Welcoming the progress since the Monterrey Conference in enhancing regional financial cooperation, the international community should continue to provide technical assistance and advice to support further efforts to supplement global arrangements with regional ones, including those aimed at strengthening mutual surveillance and peer review and providing financial support to participating countries in times of crisis. At the same time, it is important to keep financial markets well informed about the purpose and modus operandi of those initiatives. Moreover, the international community should seek to develop appropriate modalities of interaction between global and individual regional economic cooperation frameworks.**

Improving global economic governance

156. In the Monterrey Consensus, world leaders recognize the urgent need to enhance coherence, governance and consistency of the international monetary, financial and trading systems, and to contribute to that end underline the importance of continuing to improve global economic governance and strengthen the United Nations leadership in promoting development. They add that good governance at all levels is essential for sustained economic growth, poverty eradication and sustainable development worldwide, and that in order to better reflect the growth of interdependence and enhance legitimacy economic governance needs to develop in two areas: broadening the base for decision-making on issues of development concern and filling organizational gaps.

157. Stressing the need to enhance the participation of developing countries in international economic dialogues, decision-making and norm-setting, and to find pragmatic and innovative ways to do so, the Monterrey Consensus encourages the Bretton Woods institutions to continue to enhance the participation of developing and transition economy countries in their decision-making. The IMF and World Bank Development Committee took up that matter both at its fall 2002 and spring 2003 meetings, and will continue to consider the issue further at its fall 2003 meeting.

158. A technical note by the Bank/Fund staff dealing with that subject has been prepared, at the request of the Committee; it reviews the voice and participation of developing and transition countries in decision-making at the World Bank and IMF. The note provides a valuable inventory of key issues and possible avenues for change for initial consideration by the Committee, and enumerates what could be some of the possibilities for enhancing the voting strength of developing and transition countries. The note also specifies the legal requirements that would have to be overcome to implement the indicated changes in both the Bank and the Fund.

159. Suggestions such as those included in the above-mentioned note obviously require further analysis and discussion by the appropriate bodies of the concerned institutions, as indeed the Development Committee itself has decided to do. The Economic and Social Council, at its annual meeting with the Bretton Woods institutions and WTO held on 14 April 2003, also took up the issue. It featured prominently in the day's discussions, both in plenary sessions and in round-table meetings, and is reflected in the President's summary of the proceedings (see A/58/77-E/2003/62). In particular, the need to correlate present structures of

international organizations to the economic and political realities of the present world is one that came across quite strongly in the discussions. To many, it is becoming clear that there are ideas in this area that, thanks in no small part to the Monterrey Conference, are ripening for decision.

160. **The General Assembly should welcome and express its strong support for the efforts under way in the relevant bodies of the Bretton Woods institutions to consider and give utmost attention to the issue of enhancing the voice and participation of developing countries and countries with economies in transition in the work and decision-making processes of those institutions.**

161. The greater opportunities envisaged for developing countries and countries with economies in transition to participate in decision-making on the full range of international economic policy matters requires a complementary strengthening of their capacity to develop and assess proposals. That point has been recognized in technical cooperation programmes to strengthen the negotiating capacity of least developed countries in WTO, as well as in the steps taken to strengthen the Executive Director Offices of African countries in the Bretton Woods institutions. In addition, donors have supported the analytical and deliberative processes of groups of developing countries, such as the Group of 24 and the Heavily Indebted Poor Countries Finance Ministers Conference. These and other efforts to assist developing countries in becoming more active participants in the deliberations of the international community are essential and should be generously supported, while assuring that the assistance is effectively owned and managed by developing countries.

162. With regard to the subject of strengthening the effectiveness of the global economic system's support for development, the Monterrey Consensus encourages, inter alia, an improvement of the relationship between the United Nations and the World Trade Organization. That relationship has already been considerably improved, especially in connection with the Monterrey Conference, in the preparation of which the secretariats of the two organizations collaborated very actively. WTO was also present for the first time — at both the intergovernmental and secretariat levels — at the 14 April 2003 meeting of the Economic and Social Council with the Bretton Woods institutions, which was devoted to the theme "Increased coherence, coordination and cooperation for the implementation of the Monterrey Consensus at all levels". The WTO representatives played a key role in those discussions.

163. Another important and successful discussion on the topic of coherence, based on a mandate contained in the Marrakesh Declaration, was held at WTO headquarters in Geneva on 13 May 2003; the discussion was prepared jointly by the World Bank and IMF and the heads of those two institutions participated personally, together with the WTO Director-General. It is hoped that inter-agency meetings of that type may continue in the future and also involve, as appropriate, a closer involvement of the United Nations, reflecting the holistic approach given to the general subject of coherence in the Monterrey Consensus.

164. **In the light of the successful high-level participation of WTO at the 14 April 2003 meeting of the Economic and Social Council with the Bretton Woods institutions, that annual meeting, which is a pivotal, coherence-building element of the follow-up to the International Conference on Financing for Development, should be regarded as an effective way of enhancing the**

relationship between the United Nations system and WTO, particularly at the intergovernmental level, as foreseen in the Monterrey Consensus.

165. In the same context of strengthening the effectiveness of the global economic system's support for development, the Monterrey Consensus also calls for strengthened international tax cooperation, through enhanced dialogue among national tax authorities and greater coordination of the work of the concerned multilateral bodies and relevant regional entities. Several proposals in that regard have recently been put forward, including that of the High-level Panel on Financing for Development, which recommended the setting up of a new international organization for cooperation on tax matters. In a less far-reaching step, OECD, IMF and the World Bank are establishing an international tax dialogue. As an inter-secretariat initiative, the dialogue seeks to facilitate increased cooperation on tax matters through the provision of technical information and fostering dialogue to promote the sharing of good practices and the pursuit of common objectives in improving the functioning of national tax systems. An appropriate working relationship might thus be sought between the United Nations and the international tax dialogue.

166. In the United Nations, the 25-member Ad Hoc Group of Experts on International Cooperation in Tax Matters, a body of experts serving in their personal capacity and reporting to the Economic and Social Council through the Secretary-General, has been playing an important role. It has been suggested that one way to enhance its effectiveness and also contribute to the stated goal of strengthening international tax cooperation would be to upgrade its status within the hierarchy of the United Nations to that of an intergovernmental body, in the form of either a committee of governmental experts or a specialized new commission. In that way, its membership would be appointed by the Economic and Social Council and report directly back to it, in the same way as other intergovernmental subsidiary bodies. Its functions could be expanded commensurate with its enhanced status.

167. **The Ad Hoc Group of Experts on International Cooperation in Tax Matters should be converted into an intergovernmental body, either in the form of a committee of governmental experts or of a special new commission, as a subsidiary body of the Economic and Social Council. Proposed details of the conversion, including the redefining of the functions of the new body and the consideration of its possible relationships with other tax cooperation initiatives, could be referred to the Group of Experts itself, which is scheduled to hold its regular biennial meeting in Geneva later in 2003.**

168. At Monterrey, world leaders urged restricted-membership entities and ad hoc groupings that make policy recommendations with global implications to continue to improve their outreach to non-member countries and to enhance collaboration with the multilateral institutions with clearly defined and broad-based intergovernmental mandates. There have been some recent initiatives in that regard, notably in connection with the 2003 meeting of the G-8 in Evian-les-Bains, France, and it is hoped that the call of the Monterrey Consensus in that context will continue to be kept in mind by all those involved in that and similar initiatives.

Strengthening the role of the United Nations in international economic cooperation

169. The Monterrey Consensus reiterates, as world leaders had already done at the Millennium Summit, the priority attached to reinvigorating the United Nations system in order to promote international cooperation for development. The Monterrey Consensus also reaffirms the commitment to enabling the General Assembly to play effectively its central role as the chief deliberative, policy-making and representative organ of the United Nations, as well as to strengthening the Economic and Social Council to enable it to fulfil the role ascribed to it in the Charter of the United Nations.

170. The report of the Secretary-General submitted to the Preparatory Committee for the Monterrey Conference at its second session (12-23 February 2001) (A/AC.257/12) indicated that the Economic and Social Council has been emerging as a strategic forum to help develop overall guidance and promote policy coordination within the United Nations system, and that it thus provides a natural forum in which the various components of the system can come together and engage in a productive dialogue across functional, sectoral and institutional lines. It was also suggested in that report that Member States and all entities of the system can and should make better and more effective use of the Council as a forum for dialogue, especially regarding issues of policy coherence and coordination, including those which may require detailed consideration in the more specialized forums. That suggestion could be realized became more evident in the successful holding of the 14 April 2003 meeting of the Council with the Bretton Woods institutions and WTO, as noted above.

171. In order for the Council to perform those functions even more effectively and to provide a dynamic, interactive dialogue, particularly among high-level governmental officials, on the most crucial international issues related to global economic governance, it would need to be further streamlined and its working methods further improved. That should help obviate the tendency for States to gravitate towards more limited-membership, ad hoc bodies and groups that normally fall outside the domain of the United Nations. In the same vein, proposals continue to come forward about the need to set up separate new bodies, such as an economic security council. The desired objectives can all be accomplished within the context of the United Nations, if there is political will do to so, but as with all profound changes important changes and compromises would have to be made.

172. **Further deepening of Economic and Social Council reform along the lines outlined above, bearing in mind the fulfilment of the functions set out in Chapters IX and X of the Charter of the United Nations as well as the new special responsibilities for the Council arising from the Millennium Declaration and the International Conference on Financing for Development, should be given special attention by the General Assembly as well as by the Council itself. That effort should build on recent advances made through the Ad Hoc Working Group of the General Assembly on the integrated and coordinated implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social fields; it should be part of a broader process aimed at enhancing the effectiveness, coherence and balance of roles and responsibilities across all the principal organs of the United Nations; and it should be related to the overall efforts under way to modernize**

the Organization and equip it to meet effectively and holistically the new, growing challenges of the current century.

173. One other important part of the last chapter of the Monterrey Consensus was the commitment of world leaders to finalizing as soon as possible both a United Nations convention against corruption in all its aspects and to encourage States that have not yet done so to become parties to both the United Nations Convention against Transnational Organized Crime and the International Convention for the Suppression of the Financing of Terrorism. As indicated in section II above, the text of the United Nations Convention against Corruption is being finalized and will be submitted for approval by the General Assembly in 2003. The United Nations Convention against Transnational Crime is fast approaching entry into force, with 37 of the 40 required ratifications deposited with the United Nations (including two of the three protocols, on trafficking in persons and the smuggling of migrants). In addition, since the Monterrey Conference the United Nations Convention on the Financing of Terrorism has come into force, and as of mid-2003 61 new countries have submitted their corresponding ratification documents.

VIII. Staying engaged

174. In adopting the Monterrey Consensus, the international community recognized that building a global alliance for development would require an unremitting effort. Hence, the Monterrey Consensus embodies a major commitment by all stakeholders to keeping fully engaged, nationally, regionally and internationally; to ensuring proper follow-up to the implementation of agreements and commitments reached at the Conference; and to continuing to build bridges between development, finance and trade organizations and initiatives, within the framework of the holistic agenda of the Conference. To that end, it calls for greater cooperation among existing institutions, with due regard to their respective mandates and governance structures.

175. The "Staying engaged" chapter of the Monterrey Consensus provides general parameters and some specific modalities for the follow-up to the Conference. The United Nations has been assigned the leading role in the follow-up process, with the participation of, and in collaboration with, all relevant stakeholders. Rather than establishing new intergovernmental mechanisms, the Conference decided to strengthen and make fuller use of the General Assembly and the Economic and Social Council, as well as the relevant intergovernmental and governing bodies of other institutional stakeholders, for the purposes of conference follow-up and coordination. In that context, it identified a series of interconnected elements related to: (a) interactions between representatives of the Economic and Social Council and the directors of the Executive Boards of the World Bank and IMF, as well as representatives of the appropriate intergovernmental bodies of WTO; (b) the annual spring meeting of the Council with the Bretton Woods institutions and WTO; (c) the biennial high-level dialogue of the General Assembly on financing for development and related issues; and (d) modalities for participation of all relevant stakeholders, including civil society and the private sector.

176. During the period following the Monterrey Conference, the General Assembly and the Economic and Social Council reached a number of agreements regarding the implementation of the "Staying engaged" chapter of the Consensus, which provide important guidance on many aspects of the intergovernmental follow-up

mechanisms. However, the experience gained within the first year and a half after the Conference indicates that even more enhanced preparations are needed to ensure the success and effectiveness of future intergovernmental deliberations.

Annual spring meeting of ECOSOC with the international financial and trade institutions

177. The Monterrey Consensus assigns a special role to the annual spring meeting of the Economic and Social Council with the Bretton Woods institutions and WTO to maintain the momentum for the implementation of the outcome of the Conference. A new feature of the 2003 meeting, in addition to the participation of WTO at the intergovernmental level, as noted above, was the participation of the President of the General Assembly and a significant number of Executive Directors of the World Bank and IMF, along with high-level officials representing Governments, international institutions, civil society and the business sector. The above-mentioned summary by the President of the Council of the outcome of the meeting (A/58/77-E/2003/62), as well as the relevant resolution adopted by the Council at its substantive session of 2003 (2003/L.39), provide further guidance on how the spring meeting of the Council and the high-level dialogue of the General Assembly can better serve the purpose of enhancing the engagement of all stakeholders in the implementation of the Monterrey Consensus. In that connection, the Assembly (see Assembly resolution 57/270 B) and the Council (see Council resolution 2003/__(E/2003/L.39)) decided to invite representatives of the UNCTAD Trade and Development Board to participate in future spring meetings.

178. Both Monterrey Consensus and Economic and Social Council resolutions 2002/34 and 2003/__ (2003/L.39) place the issues of coherence, coordination and cooperation related to the follow-up to the Conference at the centre of the annual spring meeting. The resolutions call for a well-prepared and focused agenda for a meeting geared to advancing the implementation of the Monterrey Consensus, as well as examining further steps to be taken by each of the stakeholders to move forward the financing for development process. An early determination of specific topics to be addressed at the future meetings would be critically important for a successful preparatory process, including the preparation of documentation by the Secretariat. Specific topics should be defined as far ahead as possible, so as to provide adequate time for Governments and institutions to prepare for the discussion and to facilitate productive interactions among relevant stakeholders in all aspects of the preparatory work. In addition, in order to ensure that the agenda of future meetings reflects the holistic approach to the interconnected national, regional, international and systemic challenges of financing for development, a multi-year work programme might be considered. The consultative process among relevant stakeholders could provide the needed flexibility for possible adjustments that might be warranted by unforeseen domestic or international circumstances.

179. **The annual spring meeting of the Economic and Social Council with international financial and trade institutions should be focused on one or two topics selected from the Monterrey Consensus. Those topics should be policy-oriented and should be based on the overall theme of coherence, coordination and cooperation in follow-up to the Conference. The Council could select the topics for future spring meetings at its substantive session, in consultation with the relevant institutional stakeholders and taking into consideration the outcome of the previous spring meeting.**

180. Preparations for the 2003 spring meeting involved extensive consultations within the Council and of its Bureau with the management of the World Bank, IMF and WTO, as well as a meeting of members of the Economic and Social Council with a group of executive directors of the World Bank. The President of the Economic and Social Council provided, on a regular basis, progress reports on those contacts to the members of the Council. However, no final decision was reached on the issue of Council members' representation at contacts and meetings with intergovernmental/governing bodies of the Bank, the Fund and WTO prior to the spring meeting, as called for in paragraph 69 (a) of the Monterrey Consensus.

181. Building on the experience of the Bureau of the Preparatory Committee for the International Conference on Financing for Development, the Economic and Social Council would benefit from selecting an appropriately sized and duly representative group of its member States, who could undertake substantive face-to-face consultations, when necessary, with their colleagues in the other institutions. To ensure effective interactions, such a body, which might be designated an executive or steering committee, could roughly match the size of the Bureau of the Preparatory Committee for the Monterrey Conference, and should provide adequate representation of the various views within and among the regional groups. The main function of such a committee would be to engage, from the United Nations side, counterparts from other institutions in an intergovernmental dialogue on issues of mutual interest, in particular on the themes and other aspects of the preparations for the spring meeting.

182. **The Economic and Social Council may wish to consider an appropriate mechanism, such as a geographically balanced committee or expanded bureau or similar arrangement, to assist it in effectively preparing for the annual spring meeting with the World Bank, IMF, World Trade Organization and UNCTAD and in dealing with related aspects of the follow-up to the International Conference on Financing for Development falling within the Council's purview. In particular, such a mechanism could assist the Council in ensuring sustained interactions with the intergovernmental or governing bodies of those institutions in preparation for the meeting, with the support of the Financing for Development Office and other relevant support offices and inter-agency mechanisms.**

183. In preparation for the 2003 spring meeting, the Council also conducted, in March 2003, extensive public hearings and a fruitful interactive dialogue with members of civil society and the business sector. Representatives of civil society focused on the topics of external debt, international trade, global governance, the Millennium Development Goals and ODA, and policy coherence. The business interlocutors drew attention to issues related to the impediments to private investment; analysis of country opportunities; risks and investment transaction services; the limited access by developing countries to long-term finance for infrastructure development; and frameworks for collaboration and coordination between the public and private sectors in the implementation of the Monterrey Consensus. The outcomes of those deliberations were presented to the spring meeting of the Council (A/58/77/Add.1 and 2-E/2003/62/Add.1 and 2).

184. Non-institutional stakeholders also put forward a number of concrete proposals to enhance multi-stakeholder cooperation for the implementation of the Monterrey Consensus. For example, as mentioned above an initiative is being developed, in

conjunction with some major business interlocutors, to launch a process of informal multi-stakeholder consultations on selected policy issues related to public/private cooperation for development. Those consultations would bring together experts from the public and private sectors as well as academia and civil society, and would comprise a series of workshops over the course of one to two years. The outcome of those deliberations, including studies and policy recommendations, would be disseminated to interested Governments, international organizations and the public at large, thus supplementing the ongoing work of major institutional stakeholders and stimulating new thinking in the area of financing for development.

185. **The successful involvement in the Monterrey Conference process of civil society and the business sector should be strengthened further. Specific modalities may include the setting up of informal study groups, comprising representatives of interested Governments, international organizations, civil society, business and academia. Inputs from non-institutional stakeholders should be reflected, as appropriate, in official United Nations documentation.**

High-level dialogue of the General Assembly on financing for development

186. Pursuant to paragraph 69 (c) of the Monterrey Consensus, the General Assembly, in its resolution 57/250, decided to reconstitute the high-level dialogue on strengthening international economic cooperation for development through partnership as the high-level dialogue on financing for development and to hold it biennially at the ministerial level so that it may become the intergovernmental focal point for the general follow-up to the Conference and related issues. The 2003 high-level dialogue, for which the present report is primarily intended, will consist of an innovative series of interactive plenary and informal meetings and round tables, with the participation of all relevant stakeholders, on the implementation of the results of the Conference, including consideration of the theme of coherence and consistency of the international monetary, financial and trading systems in support of development. The President of the General Assembly is to prepare a summary of the dialogue which would serve as a major input to a resolution of the Assembly on the follow-up to the Conference.

187. In preparation for the high-level dialogue, informal briefings and panel discussions will be organized, involving both institutional and non-institutional stakeholders. Such meetings will hopefully serve to enhance public awareness of the event, to deepen understanding of its specific themes and to promote multi-stakeholder interactions, thus contributing towards consensus-building and facilitating decision-making on the relevant issues and policies.

Promoting multi-stakeholder engagement at all levels

188. In paragraph 70 of the Monterrey Consensus, the international community resolved to continue to improve domestic policy coherence through the continued engagement of ministries of development, finance, trade and foreign affairs, as well as central banks. Member States should promote, as appropriate, national policy dialogues on issues of domestic policy coherence, modelled on the Monterrey Conference modalities, with the participation of all relevant stakeholders. Outcomes of such efforts would provide important inputs to the regional and global follow-up activities. In developing countries, the office of the resident coordinator of the United Nations system could facilitate that process.

189. The Monterrey Consensus also provides for harnessing the active support of the regional commissions and the regional development banks. Indeed, intergovernmental and expert meetings were organized by the regional commissions and regional development banks to address various issues related to the preparation for and implementation of the Monterrey Consensus. The regional economic and social surveys for 2002-2003 and special studies provided focused analyses of macroeconomic developments and policy issues related to the mobilization of financial resources for development in their respective regions. Building on those experiences, regional patterns of follow-up activities that complement significantly the policy dialogue at the global level have emerged. Those efforts should warrant strengthened support from global institutions.

190. **The regional commissions, in cooperation with regional development banks, should make more use of their regular intergovernmental meetings to address the regional and interregional aspects of the follow-up to the Monterrey Conference, based on policy analysis of region-specific issues and concerns. Such meetings should contribute to bridging possible gaps between national, regional and international dimensions of the implementation of the Monterrey Consensus. United Nations funds and programmes should play a supporting role in facilitating such regional follow-up initiatives.**

191. The Monterrey Consensus calls for keeping the financing for development process on the agenda of intergovernmental bodies of all main stakeholders, including the United Nations funds, programmes and agencies. In response, the UNCTAD Trade and Development Board, at its nineteenth special session, held in Bangkok from 29 April to 2 May 2002, concluded that the outcome of the Monterrey Conference had underlined the centrality of the issues covered by UNCTAD and had provided new impetus to UNCTAD's work for the implementation of the Bangkok Plan of Action and the New Partnership for Africa's Development. At its forty-ninth session (Geneva, 7-18 October 2002), the Board addressed the issues of how the post-Doha process could work best for development. The 2002 *Trade and Development Report* examined the relationship between changes in the composition of trade in developing countries and the growth of external financial resources and national income. In addition, e-finance for development was the subject of three regional meetings conducted by UNCTAD in 2002-2003 with a view to improving developing country e-finance infrastructure and access to international finance.

192. The joint meeting of the Executive Boards of UNDP/United Nations Population Fund, the United Nations Children's Fund and the World Food Programme, held in New York on 9 June 2003, focused on the follow-up to the Monterrey Conference as it concerns issues of policy coherence at the country level, and the need for cooperation with the Bretton Woods institutions and national authorities in the preparation of development frameworks, such as poverty reduction strategy papers. In that context, the meeting highlighted the importance of a closer linkage between such national frameworks and internationally agreed development goals, including those established in the Millennium Declaration. It also stressed the need for greater coherence and coordination within the United Nations of country-level activities as a means of reducing transaction costs in recipient countries and increasing the efficiency of aid.

193. Finally, it should be recalled that, as stated in paragraph 71 of the Monterrey Consensus, the Secretary-General prepares, in cooperation with the relevant United Nations system agencies, an annual report on progress towards implementing the Millennium Declaration, including the Millennium Development Goals, which is intrinsically linked to the implementation of the Consensus. In addition, to raise public awareness of and support for the Goals, the United Nations has launched a global information campaign. In that regard, more than 100 statements have already been delivered at meetings of parliamentarians and non-governmental organizations. The 2003 *Human Development Report*, which focuses on the Goals, will also serve as a major point of reference for the campaign. In the same vein, there are plans to involve the goodwill ambassadors of United Nations funds and programmes in the campaign. Efforts for the implementation of the Monterrey Consensus and for the attainment of the Goals, in particular Goal 8, are and should be increasingly complementary and mutually reinforcing in many ways.